24 October 2025

Email: markets.consultation@asic.gov.au

Senior Manager, Markets Regulation
Markets Group
Australian Securities and Investment Commission
GPO Box 9827
Melbourne VIC 3001

Dear Sir/Madam

Consultation Paper 386: Trading systems and automated trading

The Stockbrokers and Investment Advisers Association (SIAA) is the professional body for the stockbroking and investment advice industry. Our members are Market Participants and wealth management firms that provide securities and investment advice, execution services and equity capital-raising for Australian investors, both retail and wholesale, and for businesses. Practitioner Members are suitably qualified professionals who are employed in the securities and derivatives industry.

SIAA members represent the full range of advice providers from full-service and online brokers to execution-only participants, and they provide wealth advice and portfolio management services.

The history of the stockbroking profession in Australia can be found here.

Thank you for the opportunity to provide feedback on *Consultation Paper 386: Proposed amendments to the ASIC market integrity rules: Trading systems and automated trading*. Our members who are Market Participants are subject to the Market Integrity Rules and will be impacted by the proposed changes. None of our members are futures markets participants.

Executive summary

- Introducing new obligations in the Market Integrity Rules will result in our members being subject to the risk of significant penalties for non-compliance. It is important therefore, that there is clarity in the rules that supports compliance and regulatory certainty and ensures that our members understand how they apply to their operations.
- While we agree that as trading systems have become more automated, the role of DTRs has changed, DTR’s continue to play an important role in our member firms.

- While a low percentage of orders may be entered manually, our member firms rely on DTRs to deal with the 'edge cases' such as riskier orders (for example those in an illiquid stock) and are adamant that DTRs are critical to maintaining a Fair, Orderly and Transparent market. Our members consider their DTRs to be their 'last line of defence' because the orders that require the attention of DTRs are where the risks lie for their firm.
- Changes to the Market Integrity Rules should not be based on the interests of institutional brokers alone. While they may account for the greatest value of trades, they do not account for the greatest number of investors. Given the size of retail participation in Australia's capital market, it is essential that the views and practices of retail brokers are taken into account.
- Our members will still use DTRs in their business after these changes are implemented and their DTRs will continue to play an important role in ensuring a Fair, Orderly and Transparent market. DTRs will continue to enter the majority of options orders. Specific training for DTRs will still be required to ensure they have a thorough understanding of the Market Integrity Rules and the Operating rules of ASX and Cboe.
- We recommend that ASIC provides guidance on the important role that DTRs will continue to play, the importance of DTR training and accreditation and how a Participant can evidence that it has appropriate processes that monitor and control their DTRs. We also recommend that there is clarification on what activities currently undertaken by DTRs fall within the definition of Trading Systems. Further, we recommend that the term 'Designated Trading Representative' continue to be included in the Market Integrity Rules to reflect the fact that firms will continue to use them.
- Our members have a minimal use of algorithms outside of their use of Smart Order Routers. To ensure that all market trading is not captured by the definition, it is important that Smart Order Routers are explicitly carved out from the definition of 'Trading Algorithm'.
- SIAA does not support the imposition of a requirement for Participants to undertake third party validation of testing filters, filter parameters, and trading controls and systems. Our members consider that it is unrealistic for them to obtain validation from a third-party provider.
- Our members are concerned about the increased prescription in the rules regarding testing requirements. ASIC's proposal to require a Participant to test its controls, arrangements and resources relating to its trading system will increase the ambit of the annual certification because they will be testing more systems which will in turn increase the time and cost of the reviews.
- The annual review of trading systems is onerous and a significant resource drain for our members as it requires them to re-test everything every year. SIAA recommends that the annual review requirements be amended to impose a less burdensome and less prescriptive requirement on participants.
- Our members have concerns over the proposal to amend the Market Integrity Rules to include a requirement for Participants to have in place monitoring systems that enable them to monitor trading messages in *real-time*. Our members' feedback is that, depending on

what ASIC considers to constitute *real-time* monitoring, imposing this requirement may be unrealistic and very costly to implement across the industry.

- Accordingly, SIAA strongly opposes the amendment of the Market Integrity Rules to include an obligation on participants to monitor trading messages in *real-time* until there has been further engagement and clarification on what it means.
- Our members are not aware of a real-time surveillance system that would enable participants to conduct reviews on trade alerts in *real-time*. If the amendments proposed by ASIC require such a system, it will take more than 12 months for vendors to build and our members will have significant challenges complying within a 12-month transition period.

Overview – Technological developments in exchange market trading

We agree with ASIC that there have been significant technological developments in exchange market trading on the Australian securities markets since the relevant Market Integrity Rules were last updated and that it is appropriate for the rules to be reviewed and updated to take these changes into account.

However, introducing new obligations in the Market Integrity Rules will result in our members being subject to the risk of significant penalties for non-compliance. It is important therefore, that there is clarity in the rules that supports compliance and regulatory certainty and ensures that our members understand how they apply to their operations.

We also do not consider that ASIC has provided a reasonable problem statement as to why the current regulations are not able to effectively control the matters raised in the consultation paper.

We note ASIC's statement that algorithmic trading in Australian listed equities markets comprises 85% of all trading. That is not the experience of our members who are retail brokers. Their feedback is that the percentage of algorithmic trading is likely lower than that. It would be useful if ASIC could provide further detail about what assumptions were used to calculate this number.

The role of the DTR

While we agree that as trading systems have become more automated, the role of DTRs has changed, DTR's continue to play an important role in our member firms. Indeed, in some of our smaller member firms DTRs manually enter all orders.

In July 2024 several of our members met with ASIC representatives to discuss the important role played by DTRs in their firms.

SIAA's members who are online brokers report that greater than 90% of their orders are not manually entered but are sent via their trading system and are subject to filters before being routed to market or rejected. However, notwithstanding the low percentage of orders entered manually, our member firms rely on DTRs to deal with the 'edge cases' such as riskier orders (for example those in an illiquid stock) and are adamant that DTRs are critical to maintaining a Fair, Orderly and Transparent market. Our members rely on DTRs to deal with rejected orders and undertake 'eyes on screen' monitoring and surveillance. They may call the client and educate them on matters such as market manipulation and the importance of a Fair, Orderly and Transparent market. DTRs play a critical role in benching stocks ie turning off straight-through processing and cancelling the orders if they see bad behaviour. While our members rely on pre-trade filters, they consider their DTRs to be their 'last line of defence'. The orders that require the attention of DTRs are where the risks lie for their firm.

A much higher percentage of orders are entered manually by DTRs at our member firms who are full-service brokers. Institutional orders are often worked by a DTR due to the nature of the clients. Buybacks are an example of this. Some firms require staff orders to be entered by DTRs in order to comply with client order precedence. DTRs at full-service broking firms play an important role in educating advisers.

DTRs at our member firms also play a significant role in manually entering options orders into the market given the lower prevalence of straight through processing of options orders.

We note therefore that any changes should not be based on the interests of institutional brokers alone. While they may account for the greatest value of trades, they do not account for the greatest number of investors. Given the size of retail participation in Australia's capital market, it is essential that the views and practices of retail brokers are taken into account. It is a matter for the licensee to determine whether orders are entered into the market manually or via straight-through processing. We agree that the obligations should apply equally to all participants irrespective of how the orders are entered. We support a consistent set of rules applying to the market and consider that it makes sense for ASIC to be proposing these changes at this time.

However, there are some nuances that ASIC needs to consider when finalising these rule changes.

Our members' feedback is that they will still use DTRs in their business after these changes are implemented and that DTRs will continue to play an important role in ensuring a Fair, Orderly and Transparent market. DTRs will continue to enter the majority of options orders. Specific training for DTRs will still be required to ensure they have a thorough understanding of the Market Integrity Rules and the Operating rules of ASX and Cboe.

SIAA provides industry DTR training in both cash equities and derivatives. The training involves a national DTR online examination and a one-on-one oral assessment conducted by a DTR Governor (who is also a member of SIAA's national DTR Working Group). DTRs who pass the assessment can then register for the National Register of DTR Operators, a searchable database held by SIAA which maintains the details of Nationally Accredited DTRs. SIAA will continue to provide this valuable training for the industry.

Proposals to amend the Securities Rules relating to trading systems and automated trading

Proposals relating to trading algorithms

Question B1 Q1: Do you agree with our definition of 'Trading Algorithm'? If not, please give reasons why.

At our meeting with ASIC in July 2024 we queried the high percentage of trading involving algorithms and our members detailed their minimal use of algorithms outside of their use of Smart Order Routers. Our understanding from that meeting was that algorithmic trading was predominantly undertaken by institutional not retail brokers.

During that discussion we highlighted the importance of reaching agreement on a clear and workable definition of Trading Algorithm. A key reason for this is that our member firms use Smart Order Routers which technically fall within the definition.

To ensure that all market trading is not captured by the definition it is important that Smart Order Routers are explicitly carved out from the definition of 'Trading Algorithm'.

Our members require the following additional clarification on the definition:

- There is a carve out for *systems or processes used only for the purposes of routing Orders to one or more Trading Platforms*…. Quite a few of our member firms use the IRESS BMR and have queried if IRESS BMR or Smart Order Routers (SORs) more generally are carved out of the definition of Trading Algorithm. It is important that our members have clarity on this issue so that they know what is included in the definition and what is not. IRESS BMR also includes some *parameters*. Our members consider that for certainty all SOR-like decisions need to be carved out of the definition of Trading Algorithm.
- There are other reasons why the inclusion of the words *one or more parameters of an Order* are causing concerns for our members. Some members, when placing a market order, will include some price steps to protect the client from volatility as well as to ensure market integrity. Our members query if this falls within the definition of *parameters* and therefore will be treated as a Trading Algorithm. Our members consider that to fall within the definition of Trading Algorithm there should be a substantive change to the order.
- Does ASIC intend the definition of Trading Algorithm to capture latency equalisation that delays orders entering the market? Again, our members need certainty on this.

Question B1Q2: Do you agree with our proposal to require a trading participant to:

a) Have appropriate controls and governance arrangements for the development, approval, deployment, testing and monitoring of trading algorithms; and

b) Test trading algorithms; and

c) Have controls that enable immediate suspension or limitation of the operation of trading algorithms?

If not, please give reasons why. Should these requirements extend to client algorithms?

While we agree with the proposal to require our members to have appropriate controls and governance arrangements for the approval, deployment, testing and monitoring of trading algorithms, it would be difficult for our members to have controls and arrangements in place for the *development* of algorithms developed by a third party as this would require a level of understanding and due diligence beyond their current obligations.

We agree with the proposal to *test* trading algorithms and impose controls on them as our members already do this.

These requirements cannot be extended to the testing of client algorithms if the algorithms are not provided by the Participant. Our members are usually not aware if their clients are using algorithms they have sourced from third parties. Even if they were aware, it is not practically possible for our members to approve, deploy, test and monitor algorithms used by their clients. Our online retail broking firms have hundreds of thousands of clients who may or may not use stop loss algorithms, for example. It is not possible for our members to have controls and governance arrangements in place for these.

Question B1Q3: To what extent are your trading algorithms currently tested before use and before implementing a material change?

Our members' feedback is that they test algorithms before they use them or when changes are made to the algorithms or the trading integration with the algorithm.

Question B1Q4: When would you consider a change to an algorithm to be material?

We consider that it should be up to the responsible officer who signs off on the certification to decide whether a change to an algorithm is material.

Question B1Q5: What standard of testing of trading algorithms should be required?

As with our answer to B1Q4, we consider that it should be up to the responsible officer, who signs off on the certification to decide what standard of testing of trading algorithms is required.

Question B1Q6: Do you agree with our proposal to require trading participants to maintain records of the matters referred to in Rule 5.6.3B (1) and (2) for a period of seven years. If not, please give reasons why.

We have no feedback on this issue.

Question B1Q7: If you are a trading participant, how will these proposed rules affect your business? Please provide an estimate of the time and costs to implement each proposed arrangement. In providing this estimate, please compare this with your expenditure on your current arrangements in relation to algorithmic trading.

We have no feedback on this issue.

Applying consistent obligations to trading systems used by participants in securities markets

Trading systems

Question B2 Q1: Do you agree with our proposed definition of 'Trading System' which means 'any system for submitting Trading Messages into a Trading Platform'? Please give your reasons why.

Question B2Q2: Do you agree with inserting the terms 'Trading System' and 'Trading System Requirements' to replace the AOP-related definitions in Rule 1.4.3? Please give your reasons why.

Question B2Q3: Do you agree with our proposal to have a single set of trading system obligations for both manually submitted trading messages by a representative and automated trading of securities participants? If not, please give detailed reasons why.

Question B2Q4: Do you agree with our proposal to retain and move elements of 'DTR' in Part 2.5 to Part 5.5 (see amended Rule 5.5.1) If not, please give detailed reasons why.

We note that the consequence of these proposed changes is to extend the trading system obligations to both manually submitted trading messages and automated trading and to remove the term 'Designated Trading Representative' from the Market Integrity Rules.

This leaves our members with the practical problem of how to refer to their DTRs in the future (and the requirement to update their training and compliance manuals if an alternative term is adopted). Given the role is both understood and utilised by our members, a reference in the Market Integrity Rules is recommended.

There are currently no explicit requirements in the Market Integrity Rules for DTR training and accreditation notwithstanding the importance of this for the maintenance of appropriate industry standards in support of market integrity. It is for this reason that SIAA provides DTR training and maintains the National Register, to ensure standards are maintained. Again, we note that a decision to remove the term DTR from the Market Integrity Rules should not be taken on the basis of the interests of institutional brokers alone as our members will continue to use them.

We repeat our earlier comments that notwithstanding these changes, DTRs will continue to play an important role in our member firms. From a practical perspective, we consider that every Participant will need to have at least one human responsible for oversight and monitoring of their trading system who is appropriately trained in the Market Integrity Rules and Operating rules of ASX and Cboe.

Notwithstanding that the proposals remove the differences between obligations for Automated Order Processing and DTR submitted trading messages so that existing part 5.6 obligations apply to any system for submitting trading messages into a trading platform, DTRs are human beings who make autonomous decisions and, in some cases, use their own tools. They are not machines. It is not practical for Participants to apply the same framework for monitoring, testing and control of a DTR's decision making as they do for automated order entry. Additionally, our members query whether the tools that DTRs utilise will fall within the definition of Trading System.

We recommend that ASIC provides guidance on the important role that DTRs will continue to play, the importance of DTR training and accreditation and how a Participant can evidence that it has appropriate processes that monitor and control their DTRs. We also recommend that there is clarification on what activities currently undertaken by DTRs fall within the definition of Trading Systems. Further, we recommend that the term 'Designated Trading Representative' continue to be included in the Market Integrity Rules to reflect that fact that firms will continue to use them.

Question B2Q5: If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.

We note that there are proposed changes to the order record requirements in Market Integrity Rule 4.1.1. Our members are currently considering whether any systems changes will be required to comply with these new requirements.

Initial certification, testing, material change review and annual review of trading systems

Question B3Q1: Should testing proposed in Part 5.6 be independently validated? If so, should independent validation of testing be conducted internally or by a suitably qualified third party?

There is an increase in the prescription in the rules concerning testing that is concerning for our members and is in direct conflict with ASIC's current consultation on reducing regulatory complexity.

SIAA does not support the imposition of a requirement for Participants to undertake third party validation of testing filters, filter parameters, and trading controls and systems. Our members consider that it is unrealistic for them to obtain validation from a third-party provider. Participants are required to have staff who are competent in these matters. Most have internal technical staff who are experts. Our members query who would be qualified to undertake this validation as they will have more technical knowledge than the third-party. In their experience, imposing a requirement for this to be subject to audit will result in our members spending significant amounts of time and money in explaining the systems to their auditor.

Imposing independent validation on Participants will not increase market efficiency. In any event, Participants cannot pass on their responsibility to third parties. Imposing this additional requirement will only increase regulatory burden.

Question B3Q2: If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.

We have no feedback on this issue.

Question B3Q3: Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?

Our members' feedback is that the proposals will increase the ambit of the annual certification because Participants will be testing more systems. This will increase the cost of the annual certification as more systems are being tested. We also question how our members would test DTR decision making.

Question B4Q1: Do you agree with our proposal to amend Rules 5.6.4, 5.6.8 and 5.6.8A to require that a trading participant must test its controls, arrangements and resources relating to its trading system. Please give your reasons why.

Our members are concerned about the increased prescription in the rules regarding testing requirements. As stated in our response to Question B3Q3, the proposal to require a Participant to test its controls, arrangements and resources relating to its trading system will increase the ambit of the annual certification because they will be testing more systems which will in turn increase the time and cost of the reviews.

It is also unclear to our members as to how they would create and test controls and arrangements that relate to orders handled by DTRs.

Question B4Q2: Do you agree with our proposal to specify that, as part of the internal certification, material changes and annual review, testing by a trading participant of its controls, arrangements and resources should also be included? Please give your reasons why.

Our members' feedback is that the annual review of their trading systems is onerous and a significant resource drain as it requires them to re-test everything every year. For some members, this means they have to test over 100 filters each year. It must be possible for a more pragmatic and less burdensome approach to be adopted that would allow members to test a sample of the controls, arrangements and resources each year rather than every single one.

They have also provided feedback that it is unclear how they would create and test controls and arrangements that relate to orders handled by DTRs.

SIAA recommends that the annual review requirements be amended to impose a less burdensome and less prescriptive requirement on participants.

Question B4Q3: If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.

We have no feedback on this issue.

Question B4Q4: Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?

We have no further feedback.

Systems for real-time and post-trade monitoring of trading messages

Question B5Q1: Do you agree with our proposal to insert proposed Rule 5.6.3A? If you are a trading participant, do you already have in place monitoring systems that would satisfy the proposed rule?

Our members have concerns over the proposal to amend the Market Integrity Rules to include a requirement for Participants to have in place monitoring systems that enable them to monitor trading messages in *real-time.* Our members' feedback is that, depending on what ASIC considers to constitute *real-time* monitoring, imposing this requirement may be unrealistic and very costly to implement across the industry.

Imposing a requirement for *real-time* monitoring is a significant departure from the current expectation (contained in Regulatory Guide 241) that a participant conducts real-time or *close to real-time* monitoring and post-trade analysis.

Our members with SMARTS post trade monitoring in place have access to real-time data. This is generally monitored on a close to real time basis, in particular for the more time sensitive post trade alerts. Clarification is needed to ensure that this is what ASIC means when it refers to *real-time* monitoring. While firms that use costly trade surveillance systems may be able to conduct reviews on trade alerts within a reasonable timeframe (such as 15 to 20 minutes after the trade), they could not undertake these reviews in *real-time*. The time taken to monitor and review trade alerts must be reasonable and will depend on the circumstances of the order and/or trade and the investigation required.

Those members without SMARTS surveillance undertake monitoring but not in *real-time* all the time. Imposing *real-time* monitoring on these firms would result in the imposition of a significant regulatory and cost burden as they would have to source and implement new systems and staff to satisfy the proposed rule. Member feedback is that in many cases it may not even be practicable to implement.

We query why ASIC would be imposing an obligation on our members that exceeds the current expectation in such a significant way. The obligation does not modernise the trading system to reflect current trading practices, nor does it clarify and reduce complexity. It also runs counter to the findings of ASIC's Report 786 on market cleanliness issued in July 2024 which found Australia's market operates with a high degree of integrity and remains consistently among the cleanest in the world.

If ASIC's intention is to impose this additional regulatory burden on the industry, further consultation is needed on ASIC's explicit expectation of what *real-time* monitoring looks like and how it expects participants to comply with it. We have members who use SMARTS surveillance systems. We have other members who don't use these costly systems – but their DTRs enter every order into the market. We need clarification as to whether these approaches will satisfy the new proposed requirement for *real-time* monitoring.

It is important to note that a large number of alerts may not mean that there has been any suspicious trading. Participants already have significant obligations to ensure a fair, orderly and transparent market including an obligation to report suspicious activity to ASIC.

A breach of the Market Integrity Rules results in serious and significant penalties being imposed on participants. It may be nearly impossible for some participants to prove that they satisfied an obligation to undertake monitoring in *real-time*. This exposes those members to significant regulatory risk.

For these reasons SIAA strongly opposes the amendment of the Market Integrity Rules to include an obligation on participants to monitor trading messages in *real-time.* Further clarification and engagement are required on this.

Question B5Q2: If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.

Feedback from members is that, depending on what ASIC considers to constitute *real-time* monitoring, there could be a significant impact on their business if they are required to implement *real-time* trading monitoring systems, and that *real-time* monitoring may not even be practicable.

Including an obligation to monitor market trading in *real-time* would also increase their regulatory risk.

Question B5Q3: Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?

We have a query about the addition of rule 5.6.3A (2) that requires Participants to maintain records of trading messages identified under paragraph (1) (a) or (b) of the section and any measures taken in respect of the trading messages for seven years from their relevant date. Some of our members have systems that reject some orders outright which means they do not retain these orders. We would like clarification from ASIC as to whether Participants are required to capture and retain these rejected orders.

Consequential amendments

Question B6Q1: Do you disagree with any of the suggested consequential amendments to update and streamline related Securities Rules? Please give your reasons why.

We have no feedback on this issue.

Question B6Q2: If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.

We have no feedback on this issue.

Question B6Q3: Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?

We currently have no other feedback in relation to the Securities Rules relating to trading systems and automated trading.

Clarifying the false or misleading appearance rules

Question B7Q1: Do you agree with our proposal to amend the false or misleading appearance rules in Part 5.7? Please give reasons for your answer.

We have concerns about the breadth of these provisions.

The extension of the false or misleading appearance rules to *the person (or if the person is acting on behalf of another person, that other person)* will create challenges for those members with clients who act as intermediaries. This 'look through' provision is very broad in its scope and **we recommend** that ASIC provide clarity on what compliance with this provision will look like. For example, if ASIC requires Participants to know the identity of the underlying client when acting for an intermediary, our members require clarity on this issue.

We also have concerns about the addition of proposed rule 5.7.2 (l) *any other matter.* A breach of these provisions results in significant penalties being imposed on our members making it vital that they are able to comply with them. The addition of such a 'kitchen sink' requirement means that our members have no certainty about the extent or particularity of the regulatory obligation, thus reducing regulatory clarity and increasing the risk of non-compliance.

We note that ASIC is committed to reducing regulatory complexity in drafting legislative instruments and **we recommend** that it removes this regulatory catch-all provision from the rule.

Question B7Q2: If you are a Market Participant, how will these proposed rule changes affect your business? Please provide an estimate of the time and costs to implement these rule changes. In providing this estimate, please compare this with your expenditure on your current arrangements.

We have no feedback on this issue other than to point out that any regulatory changes that requires our members to make systems and procedure changes results in them incurring costs. If ASIC's intention is for all brokers to use a SMARTS trade surveillance system for their trade monitoring, those brokers who currently don't have such a system will need to incur significant costs to implement one.

Implementation of the obligations

Question D1Q1: Do you agree with the 12-month transition period for the commencement of proposed amendments to the Securities Rules? In your response please provide detailed reasons for your answer.

Our member feedback is that the length of the transition period will depend on the final form of the proposed rules.

Changes to members' systems take time and require firms to implement the resulting procedural changes as well as staff training.

Our members are not aware of a real-time surveillance system that would enable participants to conduct reviews on trade alerts in *real-time*. If the amendments proposed by ASIC require such a system it will take more than 12 months for vendors to build and our members will have significant challenges complying within a 12-month transition period.

Conclusion

If you require additional information or wish to discuss this submission in greater detail please do not hesitate to contact SIAA's policy manager, Michelle Huckel, using the contact details in the covering email.

Yours faithfully

Judith Fox
Chief Executive Officer