

## **SUBMISSION: MID-POINT ORDER BOOK**

The purpose of this paper is as a submission to the Final NZX RegCo Consultation Paper on the proposed Mid-Point Order Book, issued during July 2021.

The NZX proposal will see the establishment of a new Mid-Point Order Book (an anonymised ‘dark pool’ market) alongside the Central Limit Order Book (the existing ‘visible’ anonymised market).

### **NZSA is supportive of the proposal to introduce an NZX managed Mid-Point Order Book.**

- 1) NZSA believes that the Mid-Point Order Book proposed by NZX provides a proven, strategic approach to addressing the problem of high levels of off-market trading, which are higher than that currently occurring in most equity-trading jurisdictions.
- 2) This create problems for both price discovery and liquidity.
- 3) While not generally in favour of “dark pool” trading, we agree that the provision of this NZX-managed platform is a worthwhile step to take with the aim of reducing the current level of off-market trading of NZX listed entities.
- 4) NZSA understands and supports the arguments advanced by NZX in favour of a volume/time approach over a price/time approach. These arguments make sense, given that the focus is on ensuring that there is potential increased on-market trading for different types of orders (typically larger) that are currently traded off-market.
- 5) We agree with the benefits outlined in the discussion paper, principally that:
  - a) There is an opportunity to reduce off-market trading;
  - b) The proposal is expected to be liquidity enhancing;
  - c) The proposed settings will ensure that retail investors and other non-institutional investors, while not targeted, will not be excluded;
  - d) Market integrity should be enhanced through this new trading avenue.
- 6) There are a number of major differences to the current Central Limit Order Book (‘core’ market), as set out below.
- 7) NZSA recognises and supports that the two Order Books are designed to complement each other.

### **Price Discovery**

- 8) We note that as orders are executed at the mid-point of the current Bid and Offer order price in the Central Limit Order Book (the existing 'core' market), this represents more effective price discovery and encourages liquidity.
- 9) We also note that un-matched orders will flow through to the 'core' Central Limit Order Book, creating greater opportunities for retail investors.
- 10) Both mechanisms ensure that the Mid-Point Order Book also maintains a strong link to the 'core' market.

### **Prioritisation**

- 11) NZSA notes the significant change in the prioritisation mechanism of the Mid-Point Order Book, compared with the core Central Limit Order Book. Mid-Point Order-Book orders will be prioritised on volume/time (not price/time), with participants also able to elect a minimum executable quantity.
- 12) NZSA believes this is appropriate in a context where the price is already 'set' as the mid-point between the bid and offer price and serve to encourage price discovery.

### **Participation**

- 13) NZSA does **not** support the Mid-Point Order Book being restricted to a 'minimum order size' – we are pleased that the NZX has discounted imposing such a rule in its proposal.
- 14) NZSA acknowledges that smaller volume orders typically placed by retail investors will rank below those of larger orders, typically placed by institutions.
- 15) Nonetheless, while the Mid-Point Order Book is not specifically targeted at retail investors, in theory, there is no reason why retail investors are not able to participate. A lower minimum executable quantity is likely to improve tradeability for retail investors participating in the mid-point order book.
- 16) Even with limited ability for retail investors to trade in the Mid-Point Order Book, as discussed above NZSA also believes that more liquidity and trading by institutions will support retail investor volume on the core Central Limit Order Book.

For any comments or questions relating to this submission, please contact Oliver Mander at [ceo@nzshareholders.co.nz](mailto:ceo@nzshareholders.co.nz) or at +64 21 190-5343.

August 23<sup>rd</sup> 2021