

A Series of firsts down under

With the support of NASDAQ OMX, ASX becomes the first exchange to establish an integrated end-to-end platform for multi-asset trading.

The Australian securities market always has been ahead of its time. In 1987, long before the world's stock exchanges began consolidating, the six separate stock exchanges in Australia merged into one entity and was renamed the Australian Stock Exchange (ASX). In 2006, it merged with the Sydney Futures Exchange to form the Australian Securities Exchange (ASX). Today, ASX is one of the top-10 listed exchange groups, measured by market capitalization.

ASX is also known for technology leadership and innovation. It was one of the first exchanges in the world to implement an in-house developed electronic trading system, called SEATS, in 1987. Later, the exchange led the pack by introducing electronic clearing and surveillance systems in 1995 and automated options trading on NASDAQ OMX's CLICK platform in 1997.

By 2003, the time had come to rejuvenate the equities trading environment. One option was to enhance SEATS, but ASX decided that was not the best route to cost effectively accomplish its strategic objectives. "We talked with NASDAQ OMX about our future business opportunities, and they came up with an adventurous proposal to integrate both equities and derivatives on the same platform," says Jeff Olsson, Group Executive, Technology at ASX. "Both organizations were willing to take some risks in order to move the environment forward, which in hindsight reflects the strength of our relationship."

Closing its derivatives trading floor in 1997 and replacing SEATS with the NASDAQ OMX trading system in 2006 were other firsts for ASX. Cash, interest rate, futures,

derivatives, commodities, energy and structured products now sit in one environment making ASX the only exchange to have this capability. This development yielded significant benefits for ASX's diverse domestic and international customers that want to be able to seamlessly trade a broad range of products through a single venue. Moreover, the NASDAQ OMX system proved to be extremely stable with 100 percent uptime during the first year of implementation.

Besides implementing the new NASDAQ OMX trading system, ASX also implemented EXIGO, a central securities depository (CSD) system. Now EXIGO is a critical part of the Australian market's settlement infrastructure, providing matching, settlement and depository services to the financial markets community. The solution facilitates real-time irrevocable settlement through its link with the Reserve Bank of Australia. "The CSD solution went a long way towards helping us improve efficiencies and market practices," says Olsson.

Few exchanges offer as wide a range of products and capabilities as ASX. Still, the challenge for ASX is to maintain its leading position relative to global equities and commodities exchanges as well as new trading alternatives.

Australian investors are looking for opportunities to spread their risk and enhance returns. While many of them invest internationally, the onus is on ASX to provide a wide choice domestically. To this end, ASX needs to continually introduce new, innovative products that attract capital to the exchange.

Challenge: Maintain its leading position in the Australian market by providing a wide range of products and capabilities domestically.

Solution: Work with NASDAQ OMX to integrate both equities and derivatives on the same platform, reduce latency, increase capacity and be technically capable of introducing new products quickly.

For instance, ASX recently increased the number of exchange-traded funds (ETFs) offered on the exchange from three to 11, and it is planning to add more in the near future. Also in the structured product arena, the exchange now offers listed managed investments and property trusts as well as Contracts for Difference (CFDs).

In all likelihood, one of the next markets to be introduced will be carbon trading. The Australian government, ASX and investors are all keen to see this happen, so plans are in the works to establish a regulatory framework and market rules to support it.

“As the brokers come up with new ideas, NASDAQ OMX’s technology platform ensures we can implement them quickly,” Olsson notes. “It also provides the reliability and availability we need to process large trading volumes.”

Since 1987, ASX’s volumes have increased at a compound annual growth rate of 17 percent. But given the recent surge in equities volumes, capacity is even more critical for the exchange. When ASX went live with the NASDAQ OMX trading system in October 2006, its peak number of trades per day was about 200,000. By August 2007, that number climbed to 575,000 trades.

“If we had retained SEATS, we would have started to have a capacity problem around 400,000 trades,” says Olsson. “With the NASDAQ OMX system, we can stay ahead of the capacity curve. We are working with NASDAQ OMX to ensure we have 50 percent headroom above our previous

peak and the capability to move to 100 percent within three months.”

Algorithmic trading is one of the drivers behind the radical spikes in volume. These models break large orders into smaller ones so the execution does not have an adverse impact on the market. Timing is an essential ingredient for success. This is just one more way in which the NASDAQ OMX trading system has proved its value as it enabled ASX to reduce the average latency from 80 milliseconds to 20 milliseconds.

ASX has taken steps to attract and retain algorithmic trading business by creating a favorable environment for it. In particular, the exchange changed its pricing model so these customers are charged based on the value of the trades, not the number of trades. To this end, volumes are likely to keep growing along the same trajectory.

Ultimately, ASX’s mission is to provide a central pool of liquidity that enables companies to raise capital and all types of shareholders to grow their wealth. As ASX grows, it will continue to use technology and add capacity to achieve competitive advantage and innovative edge.

“Over time, ASX and NASDAQ OMX have developed a relationship based on mutual understanding,” says Olsson. “ASX understands NASDAQ OMX’s strategic positioning, and NASDAQ OMX understands ASX’s business objectives. Together we are a winning combination.”

Fact Box-ASX

The Australian Securities Exchange (ASX) functions as a market operator, supervisor, central counterparty clearer, and payments system facilitator. Its diverse domestic and international customer base includes issuers of various listed securities, investment and trading banks, fund managers, hedge funds, commodity trading advisers, and proprietary and retail traders.

ASX’s domestic market capitalization is now over AUS\$1.6 trillion. During the first full year following the merger with the Sydney Futures Exchange (SFE), the amount of capital raised on ASX was up 36 percent to AUS \$78 billion, year-on-year equity-trading volumes were up 96 percent and derivatives volumes were up 30 percent.