

12 August 2019

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

Attention: Michael Bradley, Director, AEMC

By email to: michael.bradley@aemc.gov.au

Dear Mr Bradley,

**Re: Draft Rule Determination - National Electricity Amendment (Market Making Arrangements in the NEM) Rule 2019**

ASX is pleased to respond to the Draft Rule Determination ("DRD") relating to market making arrangements in the NEM. We wish to raise the following matters for consideration by the AEMC in the Final Determination.

**1. Section 4.2.4 – Bid ask spreads**

ASX has ensured alignment of its scheme with the obligations of the MLO, and we therefor suggest the following minor corrections to the document: The DRD states that the spread requirement in NSW, Qld and Vic is 3% whereas for both the MLO and ASX scheme, the spread is 5%. Likewise, for both the MLO and ASX scheme, the spread for SA is 7%, not 5% as stated in the DRD.

**2. Section 6.5 - Conclusions on the net benefits of additional market making arrangements**

Market makers play several important roles within markets, increasing the information flow, narrowing bid/ask spreads, and helping to ensure an orderly market. Market makers are bound by specific requirements defined by the venue operator and/or regulator. In exchange for meeting these requirements, market makers are usually compensated via the returns offered through the bid-ask spread or via specific incentives such as fee rebates. In the case of the ASX market making scheme, ASX provides some incentive in the form of rebates and revenue share resulting from market growth. Those who signed up to the scheme generally consider these to be marginal incentives. This highlights an important element in the voluntary market making arrangement – that is that it benefits from alignment and synergies with regulatory obligations arising from the Mandatory Liquidity Obligation (MLO). This alignment, coupled with the potential for further market making arrangements being introduced by the market regulator, creates a 'soft pressure' that is an important factor in the voluntary scheme.

As the DRD notes, the ASX voluntary scheme is the best and least cost solution and provides, in regards to market making, the greatest contribution to the NEO. One specific advantage not noted in the DRD is the ability for the ASX scheme to evolve relatively easily in response to changing market circumstances. This was recently evidenced in the NZ Electricity Market where ASX operates a similar market making scheme. The NZEM experienced extreme market volatility between October 2018 and February 2019, during which time price making to the ASX obligations broke down due to the market price volatility. In March 2019, a new scheme with different obligations was developed and by April, the market making activity had recovered. In response to further feedback from market participants, additional

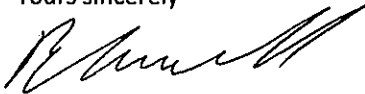
amendments to the market maker obligations were negotiated by ASX and agreed to be market makers. The flexibility in the evolution of the market making arrangement is an important element in ensuring an appropriate balance between obligations and risk. It is doubtful that either a mandatory or incentivised market making arrangement would be able to respond to the evolving market conditions as flexibly and successfully as ASX voluntary market making scheme.

### 3. Section 7.2.1 – Monitoring compliance with market making schemes

ASX recognises the legitimate role regulators play in ensuring market contracting arrangements are working in the interests of all users of the market. Accordingly, some degree of reporting of market making activity would seem both helpful and legitimate. Determining the nature of this regulatory oversight and supervision for what is a voluntary scheme should be determined in consultation with market makers, regulators and ASX.

Please do not hesitate to contact the person indicated below if there are any questions relating to this response.

Yours sincerely



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Head of Commodities

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