**Priority Crossing**

A Priority Crossing is a method by which a trading participant can execute both sides of a trade (i.e., match a buy and a sell order) for Cash Market Products (such as stocks) or a Cash Only Combination (a trade that involves multiple Cash Market Products). This can be done at a specific Crossing price but only if certain conditions are met.

Key Conditions for Executing Priority Crossings:

1. Presence of Order in the Market:

The trading participant must already have an order in the trading platform at the desired crossing price.

1. Crossing Market:

There must be a Crossing Market (i.e., a market where trades can be crossed), or the trading participant must create one.

***Crossing Market*** *means that the highest Bid price and the lowest Offer price are not more than one Price Step apart.* (Section 7 ASX Operating Rules – Procedures 2010)

* Priority crossing rule was discontinued on 26/05/2013
* 10 second rule of crossing market was already discontinued by 2010

**Why priority crossing?**

1. Internalization reduces market impact and volatility
2. Broker’s POV:

* brokers can execute trades closer to expected price
* more favorable price leads to client satisfaction
* reduced volatility leads to more predictable and stable trading conditions (simplify risk management)

1. Trader’s POV:

* Accurate pricing of the stocks because of reduced market impact and volatility. Hence accurate trading decision
* Less volatility enhances predictability of their trading outcomes
* Better execution price, closer to expected price

1. ASX POV:

* Stable and orderly market promotes confidence in the trading platform
* Attract more participants

1. Faster execution (priority crossing has time priority)
2. Internalisation reduces settlement time
3. Lower trading cost
4. Potential better price
5. Incentives for market participants and liquidity provider

**Why there is a Crossing Market condition in Priority Crossing?**

1. Investor protection: the price in which crossing occurs is at, or close to, the market (best possible price).
2. Market quality: requiring orders to be subject to a market process (price discovery, transparency)

**Trade with Price Improvement (TWPI)**

* The rule introduced in 23/11/2011 as “Crossings at or within the spread” by ASX following update on the rule 4.2.3(1)(b) of the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011
* The rule allowed internal crossing **off** the market with potentially better price than the market (Priority Crossings handled this **on** the market)
* Why is the rule introduced?
* Full internalization. While Priority Crossing has internalization aspect, it was still done on the market, hence still impact the market a bit (better internalization than priority crossing).
* Allow crossing without crossing market condition, hence can be done even if the spread of best bid and best ask is more than 1 price step
* Allow liquidity providers to offer liquidity which might not be visible on the transparent order book. (source: <https://www.niceactimize.com/compliance/blog-asic-enforcement-update-twpi-or-not-incorrectly-flagged-trades-will-cost-you.html>)
* Infrastructure ready for crossing system integrated with market trading platform
* “Crossings at or within the spread” changed to TWPI in May 2013 (same time as Priority Crossing rule discontinuation) 🡪 no longer inclusive of best bid and best ask (has to be better than best bid or best ask). ASIC rule regarding meaningful price improvement introduced in 20 November 2012.
* Why the change?
* Fully shifting intended internal crossing to off-market. Infrastructure ready?
* On-market transaction is encouraged. All orders must be displayed in the order book of the market, hence foster competition, promotes liquidity and price formation. TWPI is exception because they provide a significantly better price for investors than what is available on-market (source: <https://asic.gov.au/about-asic/corporate-publications/newsletters/market-integrity-update/miu-issue-137-may-2022/#review-of-trades-with-price-improvement>).
* Why TWPI:
* Internalization reduces market impact and volatility
* faster execution (crossing market has their own order book, the thick size can be different than the market)
* Reduces settlement time
* Lower trading cost
* Better price than what is available on the market
* Hide orders, keep information from leaked
* Incentives for liquidity providers

**Appendix**

* 4.2.3(1)(b) of the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011:

***4.2.3 Exception—Trades At or Within the Spread***

1. *In these Rules, a Transaction is a* ***Trade At or Within the Spread*** *where:*
2. *if the Transaction is entered into other than by matching of an Order on an Order Book, the Participant acts:*
3. *on behalf of both buying and selling clients to that Transaction; or*
4. *on behalf of a buying or selling client on one side of that Transaction and as Principal on the other side;*
5. *if the Transaction is entered into other than by matching of an Order on an Order Book, the Transaction is executed at a price per Equity Market Product which is:*
6. *the same as the Best Available Bid or Best Available Offer;*
7. *higher than the Best Available Bid and lower than the Best Available Offer by one or more Price Steps; or*
8. *at the Best Mid-Point;*
9. *if the Transaction is entered into by matching of Orders on an Order Book, the Transaction is executed at a price per Equity Market Product which is:*
10. *the same as the Reference Bid or Reference Offer;*
11. *higher than the Reference Bid and lower than the Reference Offer by one or more Price Steps; or*
12. *at the Reference Mid-Point; and*
13. *the consideration for the Transaction is greater than $0.*
14. *For the purposes of this Rule, the Best Mid-Point and Reference Mid-Point are not limited to standard Price Steps for the Equity Market Product.*