**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

**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 liquidity providers to improve investors’ outcomes by offering 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>)
* “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)
* 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

**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.*