Manager, Financial Markets Unit
Corporations and Capital Markets Division
The Treasury

In response to your paper *Options for amending the ASIC Market Supervision Cost Recovery Arrangements*, I submit the following response.

I am the founder over Vertigo Technology, traditionally a software developer - but now working with many market participants to identify and measure their interaction with HFT in the market. Much of this feedback is built on content published on my blog on HFT, markets and related issues.

1. **(a) mostly neutral**
2. **No.**
3. **No opinion.**
4. **Yes.**
5. **n/a**
6. **I would reserve too much feedback on this question as I feel regulators would be far better served in looking at market structure issues to prevent "problem HFT" which seems to be a large drain on resources. There are simple micro-structure features that are creating the opportunity for high speed traders, causing the need for more intensive oversight. Fixing these features to prefer more genuine liquidity would remove the need for such. See TimeMatch. Also, the base of the levy should be reconsidered in order to dilute the effect on any one asset class - one glaring example of this is the exclusion of derivatives.**
7. **n/a**
8. **Placing an increased cost on re-quoting certainly causes wider bid-ask spreads, since market makers needs to ensure they keep their messages to a minimum - and therefore need to quote "wider" in order to keep quotes resting for longer. Impacts on derivatives market making (almost all their activity) is currently exempt, so it would be hard to provide examples?**
9. **Categorising a trader as being either a market-maker, or non-market-maker is problematic. Almost all proxy's discussed thus far (eg. trades, messages, and ratios) do not specifically distinguish between beneficial (market making) and predatory activity. In short, I don't believe market makers should be exempt - lest predatory traders run what looks like "market making" trading in order to avoid cost. Whatever cost metrics are determined should apply to all participants.**
10. **n/a**
11. **Such obligations that provide other benefits (eg. lower ASX fees) are already being realised. It is hard to imagine effective rules here.**
12. **n/a**
13. **No. It is easy for participants to track (in real-time) their message rate relative to the entire market. Message rates are also relatively stable (due to the levy), and volatility is skewed to the up-side - making risk more likely to be a lower message cost for a participant.**
14. **n/a**
15. **n/a**
16. **No.**
17. **n/a**
18. **n/a**
19. **Yes.**
20. **n/a**
21. **Yes - great idea, and avoids the perception of moral hazard.**
22. **No opinion.**

23. n/a
24. No opinion.
25. No opinion.
26. No opinion.
27. No opinion.
28. No opinion.

Further feedback: it would be useful if this feedback could be provided online via a form - presumably this would make things a lot more efficient at your end as well.

Regards, Fil.

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