



Our Ref: C20100015

08 January 2010

Mr A G Sturm

By email: ESBC@bougainville-copper.eu

Dear Mr Sturm,

RE: Trades in Bougainville Copper Limited ("BOC").

ASX Limited
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Thank you for your communication regarding recent trading in shares in BOC.

Your observations were passed on to the ASX Surveillance unit for analysis, which reviewed the recent trading in that stock. Surveillance noted that there were many small parcels traded and considered that these were most likely the result of a DMA (Direct Market Access) or algorithmic trading programme used by a broker which may have been attempting to match the VWAP in BOC. The trading is not considered to be manipulative.

You may be aware that most brokers now use trading applications such as trading algorithms to enter orders into the market. These algorithms have varying styles and execution strategies based on the historical data on which they are modelled and allow orders to be sent directly on to a trading platform without human intervention. One form of DMA trading involves a strategy whereby a single order might be split up into several smaller orders which are submitted periodically (say, every 3 minutes).

This type of DMA trading is normally unremarkable and has no impact on the price or volume of a stock. However, occasionally market observers may see small volume orders being submitted to a trading platform in a less liquid stock which result in small volume trades. This does not necessarily mean that a low execution trade size, even as low as one share itself, is manipulative. Repeated one share executions may be part of a broader legitimate algorithmic execution strategy. Small execution trade sizes (by definition) are unlikely to give a misleading appearance for a product, particularly of active trading.

In this regard ASX does not set rules or limits concerning the minimum trade size or order size¹, allowing ASX Participants to enter orders of any size, with the size of the order being left to the discretion of the broker or its client.

However ASX does require brokers to have in place appropriate electronic pre-execution order filters to ensure that their DMA trading does not interfere with the conduct of an orderly market or facilitate manipulative trading.

ASX's experience indicates that when a client seeks to manipulate a stock, and has a particular motive for doing so, manipulative trading is easier to carry out if the client has active control of their orders. That is, manipulation is easier to achieve if the client submits orders to the market manually at the time and price at which they will achieve maximum price impact. Algorithmic trading usually does not allow this, given that it is programmed trading, executed without the intervention of a broker.

¹ New opening positions cannot be created of a value below \$500.

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Australian Stock Exchange
Sydney Futures Exchange

Australian Clearing House
SFE Clearing Corporation

ASX Settlement and Transfer Corporation
Austraclear

Your comments have been passed on to the internal ASX Regulatory Policy area leading ASX's current review of algorithmic trading, so that it can take into account the regulatory policy issues that you raise as part of that review.

Further details and articles regarding DMA trading can also be found by searching under "DMA Trading" on the ASX website.

Thank you once again for raising your concerns with ASX.

Yours sincerely,

Jessica Ghuman
ASX Limited

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