



**ASIC**

Australian Securities & Investments Commission

**REPORT 85**

# **Market assessment report: Reuters Transaction Services Limited**

September 2006



**ASIC**

Australian Securities & Investments Commission

## **Annual assessment (s794C) report**

**Reuters Transaction Services Limited**  
**ARBN 108 137 766**

**September 2006**

## Contents

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<b>Executive summary</b> .....	<b>3</b>
<b>Compliance by RTSL</b> .....	<b>3</b>
<b>Our approach</b> .....	<b>3</b>
<b>Section 1: Background</b> .....	<b>4</b>
<b>1.1 RTSL and the market</b> .....	<b>4</b>
<b>1.2 The assessment process</b> .....	<b>5</b>
<b>Section 2: Observations</b> .....	<b>7</b>
<b>2.1 RTSL is meeting its obligations under section 792A</b> .....	<b>7</b>
<b>2.2 Other observations</b> .....	<b>7</b>
<b>Section 3: Recommendations</b> .....	<b>8</b>

# Executive summary

This report summarises ASIC's second assessment under section 794C of the *Corporations Act 2001 (Act)* of compliance by Reuters Transaction Services Limited ("RTSL") with its obligations under section 792A(c) of the Act. We also assessed RTSL's compliance with some of its reporting obligations under the Act. This report describes our assessment, conclusion and recommendations.

## Compliance by RTSL

Based on our assessment, ASIC is satisfied that RTSL has and continues to have adequate arrangements for supervising its market.

## Our approach

ASIC uses the formal assessment process to examine whether a market licensee has been and is continuing to meet its supervisory obligations. We also use the process to identify areas where improvements may be needed to enable the licensee to meet its obligations in the future

# Section 1: Background

## 1.1 RTSL and the market

RTSL was granted an Australian market licence on 28 July 2004. The licence permits RTSL to operate its market, known as RTBS, in this jurisdiction. ASIC is responsible for regulating the market in this jurisdiction under Part 7.2 of the Act.

The classes of financial product that can be dealt with on RTBS are:

- (A) foreign exchange contracts; and
- (B) derivatives that:
  - (i) are foreign exchange or interest rate derivatives; and
  - (ii) are entered into under the current International Swaps and Derivatives Association, Inc. Master Agreement or another commonly used master agreement for foreign exchange or interest rate derivatives.

RTSL's classes of financial product has been extended since 1 November 2005 pursuant to a variation of the Australian market licence dated 25 October 2005 (Variation) to include bonds issued, or proposed to be issued, by the Commonwealth, a State or Territory, a local government authority, a foreign national, regional or local government, an Australian or overseas public authority or instrumentality, a body corporate or an unincorporated body.

The market is an electronic multilateral trading platform designed to trade sophisticated financial products.

The market is provided over the Reuters Transactions Network, a private dedicated global network maintained by the Reuters Group. All network connectivity and hardware is supplied and supported by the Reuters Group.

The original licence restricted Australian participants to the Reserve Bank of Australia, an Australian ADI, a subsidiary of foreign bank, trading on their own behalf or on behalf of a related body corporate. This was extended from 1 November 2005 under the Variation to include professional investors.

### *Regulation of RTSL in United Kingdom*

RTSL continues to be authorised and regulated in the United Kingdom by the Financial Services Authority (FSA) to operate RTBS. RTSL has also been approved as a money broker by both the Hong Kong Monetary Authority and the Monetary Authority of Singapore. RTSL has told us it is in the process of setting up a representative office in China as a prelude

to seeking authorisation as a broker. RTSL has been granted exemption from the need to hold a license in countries such as Brazil and Mexico.

RTSL is authorised by the FSA to operate its market in accordance with Part IV of the Financial Services and Markets Act 2000. A Part IV permission is granted by the FSA to allow a person to carry on one or more 'regulated activities'. The FSA regulates RTSL under the Alternative Trading System (ATS) regime as set out in the FSA Handbook of rules and guidance. A number of conditions are attached to RTSL's Part IV permission.

#### *Regulation of RTSL in Australia*

RTSL's Australian market licence was granted under s795B(2) of the Act, which lists criteria for granting a market licence to an overseas-based operator. These criteria include a requirement that the regulatory regime of the home country is sufficiently equivalent in terms of investor protection and market integrity outcomes to the Australian regulatory regime. Consequently, our approach to regulating overseas-based markets places a degree of reliance on the regulatory regime imposed by the home regulator of that market.

While RTSL is required to comply with each of its obligations under the Act and any conditions imposed on its licence, ASIC necessarily relies to some extent on the regulation of RTSL undertaken by the FSA to be satisfied that RTSL is complying with its Australian obligations.

In this regard we note that ASIC continues to have an effective cooperative relationship with the FSA under a memorandum of understanding entered into by ASIC and the FSA dated 24 June 2002. ASIC and the FSA are also signatories to the IOSCO Multilateral Memorandum of Understanding.

## **1.2 The assessment process**

### **ASIC's role**

Section 794C of the Act requires ASIC to determine how well a licensee is complying with its obligations under s792A(c) of the Act to supervise its market. The assessment must consider whether the licensee has adequate arrangements for supervising the market, including arrangements for handling conflicts between the commercial interests of the licensee and the need for the licensee to ensure that the market it operates is fair, orderly and transparent.

Section 794C(1) permits ASIC to extend the scope of its annual report to assess how well a licensee complies with any or all of its obligations under Chapter 7 of the Act. We have extended the scope of our

assessment to consider RTSL's compliance with some of its reporting obligations under the Act.

### **How we conducted this assessment**

Our assessment of RTSL was based on information that ASIC had at hand, and information obtained from RTSL and from the FSA.

Specifically, in conducting our assessment under s794C, we:

- analysed information received from and about RTSL in the ordinary course of our dealings with RTSL;
- reviewed RTSL's most recent annual report, RTSL 's annual regulatory report under s792F, and a six-monthly market report provided in accordance with s9 of RTSL's market licence;
- sought additional information from RTSL for the purpose of this assessment;
- obtained information from the FSA about the market and RTSL; and
- considered how well RTSL might comply with its obligations in the future.

## Section 2: Observations

### 2.1 RTSL is meeting its obligations under section 792A

After making our assessment, ASIC concludes that RTSL has adequate arrangements for the supervision of its market in accordance with its obligations under s792A(c) of the Corporations Act. ASIC's conclusion is based on the following observations:

1. RTSL has confirmed to ASIC that the arrangements for supervising the market have not changed in any material way from the description provided in the previous annual reporting period;
2. The FSA confirmed that it had no concerns with RTSL's supervision of RTBS; and
3. During our assessment, nothing came to our attention to suggest that the supervisory arrangements were not operating properly.

### 2.2 Other observations

#### Regulation of RTSL in the United Kingdom

As part of its assessment of RTSL, ASIC sought information from the FSA about the FSA's regulation of RTSL during the assessment period. The FSA has not advised ASIC of any concerns regarding RTSL's supervisory arrangements.

RTSL's permissions and requirements that apply with regards to the regulation of Alternative Trading Systems have not changed since July 2005, and the FSA has not taken any disciplinary action against RTSL during this reporting period.

#### Reporting obligations

##### *Annual regulatory report*

RTSL lodged its s792F annual regulatory report for the period 1 January 2005 to 31 December 2005 with ASIC on 30 March 2006. ASIC notes that this report was lodged within the required period for lodgement and provided sufficient information to satisfy RTSL's obligation.

##### *Reports required by licence*

Under s9 of its market licence, RTSL must lodge reports with ASIC every six months that provide information about the volumes traded on RTBS in Australia and globally, and list all Australian participants. ASIC notes that the s9 reports were lodged within the required period, and that the reports contained the information as required under the licence.



## **Section 3: Recommendations**

Based on this assessment, ASIC does not have any recommendations to make in relation to RTSL's current supervisory arrangements.