



ASIC

Australian Securities & Investments Commission

REPORT 114

Market assessment report: Yieldbroker Pty Limited

ACN 092 250 345

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About this report

This report summaries ASIC's fourth annual assessment of Yieldbroker Pty Limited (Yieldbroker) under s794C of the *Corporations Act 2001* (Cth) (*Corporations Act*)

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Previous reports on Yieldbroker

Yieldbroker was granted an Australian market licence (AML) commencing 3 February 2004.

Report number	Date released
N/A	June 2005
REP 60	October 2005
REP 87	November 2006

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Key findings and recommendations

Key findings

- 1 We are satisfied that Yieldbroker has adequate arrangements for supervising its market in under s792A(c) of the Corporations Act.

Recommendations

- 2 We do not have any recommendations to make in relation to Yieldbroker's current supervisory arrangements.

A The assessment

Key points

ASIC conducts annual assessments of market licensees, because it is required to do so under s794C of the Corporations Act. We also conduct annual assessments of clearing and settlement facility licensees under s823C.

The scope of our assessment must include the obligations found in s792A(c), but we can include other Chapter 7 obligations too.

ASIC uses the licensee's self-assessment reports, information from its previous assessments, ASIC's observation of the licensees' performance, market intelligence and other things to form a view of how well the licensee has operated its market.

Purpose and scope

- 3 ASIC is required to assess how well a market licensee complies with its obligations in s792A(c) at least once a year (s792C(2)).
- 4 A market licensee is required to have adequate arrangements for supervising the market (under s792A) including for:
 - handling conflicts between the commercial interests of the licensee and the need for the licensee to ensure that the market is fair, orderly and transparent;
 - monitoring the conduct of participants on or in relation to the market; and
 - enforcing compliance with the market's operating rules.
- 5 In addition, we are permitted to extend the scope of our assessment to review how well Yieldbroker complies with any or all of its obligations under Chapter 7 (s794C(1)).
- 6 Yieldbroker commenced the operation of its interdealer market in April 2007.

Background

- 7 Yieldbroker is wholly owned by four entities being Citigroup Global Markets Australia Holdings Pty Limited, Deutsche Bank Aktiengesellschaft, Macquarie Bank Limited and ABN AMRO Australia Pty Limited. The board of Yieldbroker is comprised of employees of these entities.
- 8 On 3 February 2004, Yieldbroker was granted an Australian market licence (AML) to operate two markets, the dealer to client market and the interdealer market. During the assessment period Yieldbroker operated both the dealer to client market and interdealer market. The interdealer market commenced operation on 16 April 2007.

- 9 The dealer to client market allows participants known as clients to request quotes from participants known as dealers. The interdealer market allows dealer participants to trade directly with each other on a principal-to-principal basis.
- 10 The class of financial products traded on both markets is debentures.
- 11 The participants of Yieldbroker either hold an Australian financial services (AFS) licence or are professional investors.
- 12 A copy of Yieldbroker's AML is available on ASIC's website at www.asic.gov.au.

Our Methodology

Our assessment process

- 13 A market licensee's obligations are ongoing. Whether it is likely to comply with its obligations in the future cannot be judged merely by reference to its past compliance.
- 14 We therefore use the assessment process to:
- reach conclusions about the adequacy of the arrangements a market licensee has in place for supervising its market in accordance with its obligations under the Corporations Act at the time of the assessment; and
 - identify issues, which in our view need, or may need, to be addressed to ensure ongoing compliance.

What we considered

- 15 In conducting our assessment we:
- analysed information we received from and about Yieldbroker in the ordinary course of our dealings with the licensee, including Yieldbroker's annual regulatory report required under s792F;
 - reviewed policies and procedures and operational records relating to the conduct of the Yieldbroker markets, including their supervisory responsibilities;
 - analysed detailed information received from Yieldbroker on how it is meeting its obligations as a market licensee; and
 - considered the operation of the markets throughout the period.

Consultation

- 16 Yieldbroker has had the opportunity to view and comments on the findings contained in a draft version of this report. Where appropriate, this final report reflects Yieldbroker's responses.

What we focused on for this assessment

- 17 One focus of this assessment was to review the operation of the interdealer market and the way in which it was supervised.
- 18 We also considered Yieldbroker's response to our suggestion that it review its market performance criteria (MPC) procedures to ensure that the procedures were still meeting their goal.

B Our observations and recommendations for Yieldbroker

Key points

We consider Yieldbroker's arrangements for supervising its market are adequate, including arrangements for:

- handling conflicts between the commercial interests of the market licensee and the need for the market licensee to ensure that the market is fair, orderly and transparent;
- monitoring the conduct of participants on or in relation to the market; and
- enforcing compliance with the market's operating rules.

ASIC has considered the above arrangements in light of the commencement of the operation of the Interdealer market.

Yieldbroker's general obligations

Conflict of interest

- 19 We are satisfied that Yieldbroker's arrangements for handling conflicts of interest are adequate considering the nature of the markets and the nature of the markets' participants.
- 20 Both markets are restricted to participants who, it is reasonable to assume, understand the risks involved and have the resources to adequately represent and protect their own interests.
- 21 The newly operational interdealer market has similar arrangements for handling conflicts of interest as the dealer to client market.
- 22 We are not aware of any conflicts of interest events occurring on either of the markets during the assessment period.

Monitoring the conduct of participants

- 23 We are satisfied that Yieldbroker has adequate arrangements for monitoring the conduct of participants considering the nature of the markets and the nature of the markets' participants.
- 24 The interdealer market has similar arrangements for monitoring the conduct of participants as the dealer to client market.

Enforcing compliance with the operating rules

- 25 We are satisfied that Yieldbroker has adequate arrangements for enforcing compliance with its operating rules. Compliance is enforced in a similar manner for both the dealer to client market and the interdealer market.
- 26 We did not make any recommendations with respect to enforcing compliance with the operating rules in last year's assessment report. We did however suggest that Yieldbroker should review its market performance criteria (MPC) procedures to ensure that the procedures were still meeting their goal. In response to our suggestion Yieldbroker has conducted a review of its high infraction day (HID) policy, and concluded that the current policy is acceptable and should be maintained. The HID policy is peculiar to the dealer to client market only.

Reporting obligations

Annual regulatory report

- 27 Yieldbroker lodged with ASIC its s792F annual regulatory report for the period 1 July 2006 to 30 June 2007 on 26 September 2007. ASIC notes that this report was lodged within the required period and it contained the information required.

Conclusion

- 28 We consider that Yieldbroker has adequate arrangements for the supervision of the dealer to client and interdealer markets in accordance with its obligations under s792A(c).
- 29 Our conclusion is based on the assessment that we conducted and the following observations drawn from information gathered during the assessment process:
- We are not aware of Yieldbroker substantially changing the arrangements it has in place for supervising the market since last year's assessment;
 - no serious market failures or disruptions have come to our attention; and
 - during the assessment period no information came to our attention to suggest that the supervisory arrangements in place were not operating properly.

Key terms

Term	Meaning in this document
AFS licence	Australian financial services licence
AML	Australian market licence
ASIC	Australian Securities and Investments Commission
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
HID policy	high infraction day policy
market licensee	Holder of a s795B Australian market licence
Yieldbroker	Yieldbroker Pty Ltd
s794C (for example)	A section of the <i>Corporations Act 2001</i> (in this example, numbered 794C)