



ASIC

Australian Securities & Investments Commission

REPORT 255

Market assessment report: Reuters Transaction Services Limited

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About this report

This report summarises ASIC's seventh annual assessment of Reuters Transaction Services Limited (RTSL) under s794C of the *Corporations Act 2001* (Cth) (Corporations Act).

This assessment covers the period 30 June 2010 to 1 July 2011 (the assessment period).

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 RTSL

RTSL was granted an Australian market licence for an overseas market on 28 July 2004.

Report number	Report date
REP 219	October 2010
REP 181	November 2009
REP 153	April 2009
REP 101	February 2008
REP 85	September 2006
REP 64	November 2005

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Key findings and recommendations

Key findings

- 1 ASIC is satisfied that during the assessment period RTSL had adequate arrangements for the operation and supervision of its market in accordance with its obligations under s792A(c) of the Corporations Act.

Recommendations

- 2 We do not have any recommendations to make about RTSL's arrangements for the operation and supervision of its market in accordance with its obligations under s792A(c) of the Corporations Act.

A The assessment

Key points

ASIC conducts annual assessments of market licensees, such as RTSL, because it is required to do so under s794C of the Corporations Act.

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

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

Purpose and scope

- 3 On 1 August 2010, ASIC took over responsibility for supervising Australia's domestic licensed markets from market operators. As a consequence, amendments were made to the obligations contained in s792A(c) of the Corporations Act. These amendments apply to both domestic and overseas market operators.
- 4 Before the transfer of market supervision, under s792A(c) a market licensee was required to have adequate arrangements for supervising its market, including arrangements for handling conflicts, monitoring the conduct of participants, and enforcing compliance with the market's operating rules.
- 5 Following the transfer of supervision to ASIC, a market licensee is required to have adequate arrangements for operating its market, including arrangements for handling conflicts and monitoring and enforcing compliance with the market's operating rules.
- 6 More broadly, overseas market operators (such as RTSL) continue to be subject to the existing supervisory obligations in their home jurisdiction. The home regulator of RTSL is the Financial Services Authority (FSA) of the United Kingdom. Further details of the regulation of RTSL in the United Kingdom are discussed at paragraphs 45–46. Should there be any significant changes to the regulation of RTSL in the United Kingdom, RTSL is required to notify ASIC under s792B(4).
- 7 ASIC is required to assess how well a market licensee complies with its obligations under s792A(c) at least once a year: s794C(2). In addition, we are permitted to extend the scope of our assessment to review how well a licensee complies with any or all of its obligations under Ch 7: s794C(1).

8 This report covers the period 30 June 2010 to 1 July 2011.

Background

9 RTSL is a company incorporated in the United Kingdom that operates through its Geneva branch. The ultimate parent company of RTSL is Thomson Reuters Plc, since Thomson Corporation of Canada acquired Reuters Group Plc on 17 April 2008. RTSL was established to serve the foreign exchange markets by providing spot, forward and options matching products.

10 In Australia, RTSL operates its electronic multilateral trading platform (EMTP) under its Australian market licence. RTSL's EMTP facilitates trading by Australian participants in foreign exchange contracts, foreign exchange and interest rate derivatives and bonds.

11 RTSL's main business in Australia centres on its foreign exchange spot and forwards matching products, with 32 named Australian participants. The Australian participants include the Reserve Bank of Australia, Australian authorised deposit-taking institutions (ADIs), subsidiaries of foreign banks and professional investors.

12 In Australia, RTSL offers electronic platforms, including:

- Dealing 3000 Spot Matching;
- Dealing 3000 Forwards Matching;
- FX Options Matching;
- Reuters Trading for Foreign Exchange; and
- Reuters Trading for Fixed Income.

13 RTSL deployed its new matching host on 18 September 2010, increasing the capacity of its system in anticipation of the rising volumes of foreign exchange trading.

14 The annual traded volume on RTSL's Australian foreign exchange spot and forwards matching products totalled 3,492,323 in 2010, which comprised 5.17% of RTSL's international volume. This percentage represented a 0.21% decrease in traded volume compared to the previous year.

15 Thomson Reuters is looking to upgrade its conversation dealing service in response to the agreements reached at the G-20 Pittsburgh summit and the subsequent regulatory proposals that have emerged in the European Union and United States. ASIC will monitor and review the progress of these changes as they are implemented.

Regulation of RTSL in the United Kingdom and other jurisdictions

- 16 RTSL is authorised and regulated in the United Kingdom by the FSA as a Multilateral Trading Facility under the Markets in Financial Instruments Directive.
- 17 RTSL is also authorised to operate in several other jurisdictions, including Hong Kong and Singapore. RTSL is licensed as a money broker by both the Hong Kong Monetary Authority and the Monetary Authority of Singapore (MAS). RTSL is recognised by MAS as a Recognised Market Operator for the transaction product Thomson Reuters Fixed Income Trading. This electronic platform is also subject to oversight by the Hong Kong Securities and Futures Commission.
- 18 Since January 2010, RTSL has been accredited in India as an electronic order matching system (EOMS) by the Foreign Exchange Dealers' Association of India. RTSL is also subject to Indian oversight by the Forwards Market Commission for its RTEX product.
- 19 In Brazil, RTSL received accreditation in July 2010 from the Central Bank for forwards foreign exchange and non-deliverable forwards, in addition to previous accreditation for spot foreign exchange.

Regulation of RTSL in Australia

- 20 RTSL was registered under Div 2 of Pt 5B.2 of the Corporations Act as a foreign company in Australia on 23 March 2004.
- 21 RTSL was granted an Australian market licence in respect of its electronic trading platform under s795B(2) of the Corporations Act on 28 July 2004.
- 22 RTSL requires all Australian participants to hold an Australian financial services (AFS) licence that permits them to trade in products equivalent to those that can be traded on RTSL's market, unless the participant is exempted under Australian law from the requirement to hold an AFS licence to participate in the market.
- 23 RTSL's market licence is available on ASIC's website at www.asic.gov.au/markets.

Our methodology

Our assessment process

- 24 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.
- 25 We therefore use the assessment process to:
- reach conclusions about the adequacy of the arrangements a market licensee has in place in accordance with its obligations under s729A(c) of 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 focused on for this assessment

- 26 Our focus in this assessment was to review how well RTSL complied with its ongoing obligations under its Australian market licence and the Corporations Act.

What we considered

- 27 In conducting our assessment we considered:
- information we received from and about RTSL in the ordinary course of our dealings with RTSL;
 - RTSL's annual regulatory report required under s792F;
 - information from the media, RTSL's website and other sources;
 - RTSL's six-monthly licence condition reports to ASIC;
 - information sought from RTSL for the purpose of this assessment;
 - information from the FSA about RTSL; and
 - RTSL's financial report for the year ended 31 December 2010.

Communication with the foreign regulator

- 28 In assessing an overseas licensee's compliance with its obligations under s792A(c) of the Corporations Act, we place a degree of reliance on statements by the licensee's home regulator in regard to the standing of the licensee.
- 29 We have received confirmation from the FSA that no adverse information about RTSL has been brought to the FSA's attention.

Consultation

- 30 Our findings are set out in Section B of this report. RTSL has had the opportunity to view and comment on the factual accuracy of a draft version of this report. Where appropriate, our findings in Section B reflect RTSL's clarifications.

B Our observations

Key points

We have considered the adequacy of RTSL's arrangements for the operation and supervision of its market, including arrangements for:

- handling conflicts between its commercial interests and its need 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.

RTSL did not make any substantial changes to its supervisory arrangements during the assessment period.

We do not have any recommendations to make about RTSL's arrangements for the operation and supervision of its market.

We also note that RTSL has complied with its reporting obligations under the Corporations Act.

Supervisory arrangements

- 31 We conclude that during the assessment period RTSL had adequate arrangements for the operation and supervision of its market in accordance with its obligations under s792A(c) of the Corporations Act.
- 32 Our conclusion is based on the following observations drawn from information gathered during the assessment process, our ongoing correspondence with RTSL, and the present operating conditions (including trading volumes and financial products traded on the market):
- RTSL confirmed that the arrangements for supervising the market did not change during the assessment period;
 - the FSA confirmed that there was no disciplinary action taken against RTSL during the assessment period; and
 - during the assessment period, nothing came to our attention to suggest that RTSL's supervisory arrangements are not operating properly.

Managing conflicts of interest

- 33 A description of RTSL's supervisory arrangements for handling conflicts of interest is set out at Section 2.1 of our first annual assessment of RTSL,

Market assessment report: Reuters Transaction Services Limited (REP 64) issued in November 2005.

34 Based on our review of all information at hand and information provided by RTSL and the FSA, we are satisfied that RTSL continues to have adequate arrangements for handling conflicts of interest. Further, we are not aware of any conflicts of interest events occurring during the assessment period.

35 The FSA has no information that would cause it to suspect or conclude that RTSL has not been meeting its arrangements for handling conflicts.

36 We note that RTSL does not hold client money or take principal positions.

Monitoring the market and conduct of participants

37 A description of RTSL's supervisory arrangements for monitoring the conduct of participants on or in relation to the market is set out at Section 2.1 of REP 64 and at paragraphs 36–37 of *Market assessment report: Reuters Transaction Services Limited* (REP 219).

38 Based on our review of all information at hand and information provided by RTSL and the FSA, we are satisfied that RTSL has adequate arrangements for monitoring the conduct of participants.

39 There were no investigations carried out into Australian participants during the course of the assessment period.

40 The FSA does not have any information that would cause it to suspect or conclude that RTSL has not been meeting its obligations for monitoring members' conduct.

Enforcing compliance with market operating rules

41 A description of RTSL's supervisory arrangements for enforcing compliance with the market's operating rules is set out at Section 2.1 of REP 64. We note that RTSL's arrangements for enforcing compliance with the operating rules have not substantially changed since our last assessment, REP 219, issued in October 2010.

42 Participant breaches are referred to RTSL's Head of Regulation and Compliance. RTSL is required to notify the local regulatory authority of certain breaches. No event has been brought to our attention where an Australian participant has breached RTSL's operating rules.

43 The FSA has no information that would cause it to suspect or conclude that RTSL has not been meeting its obligations to enforce compliance with its operating rules.

- 44 On the basis of information available to ASIC and information provided by RTSL and the FSA, ASIC is satisfied RTSL has adequate arrangements for enforcing compliance with its operating rules.

Regulation of RTSL in the United Kingdom

- 45 We received information from the FSA about the regulation of RTSL during the assessment period.
- 46 The FSA advised that it is not aware of any information or instances indicating the inadequacy of RTSL's supervisory arrangements. Further, the FSA advised that it has not undertaken any surveillance or disciplinary action against RTSL during this assessment period.

Reporting obligations

Annual regulatory report

- 47 We note that RTSL lodged its annual regulatory report (as required under s792F) with ASIC in a timely manner with the required information.

Reports required by market licence

- 48 We also note that RTSL lodged its six-monthly reports with us on time and these contained the information required.

Rule amendments

- 49 RTSL has provided notices on rule changes in a timely manner and with sufficient information to satisfy s793D(3).

Conclusion

- 50 Based on this assessment, we do not have any recommendations to make about RTSL's arrangements for the operation and supervision of its market.

Key terms

Term	Meaning in this document
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries out a financial services business to provide financial services Note: This is a definition contained in s761A of the Corporations Act.
ASIC	Australian Securities and Investments Commission
Australian market licence	Australian market licence under s795B of the Corporations Act that authorises a person to operate a financial market
Ch 7 (for example)	A chapter in the Corporations Act (in this example numbered 7)
Corporations Act	<i>Corporations Act 2001</i> (Cth), including regulations made for the purposes of that Act
EMTP	Electronic multilateral trading platform
EOMS	Electronic Order Matching System
FSA	Financial Services Authority (UK)
market licensee	Holder of an Australian market licence
MAS	Monetary Authority of Singapore
RTSL	Reuters Transaction Services Limited
s794C (for example)	A section of the Corporations Act (in this example, numbered 794C), unless otherwise specified