



ASIC

Australian Securities & Investments Commission

REPORT 153

Market assessment report: Reuters Transaction Services Limited

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About this report

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

This assessment covers the period 7 July 2007 to 18 June 2008 (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 operator that commenced on 28 July 2004. The market licence was varied with effect from 1 November 2005.

Report number	Date released
REP 64	November 2005
REP 85	September 2006
REP 101	February 2008

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Key findings and recommendations

Key findings

- 1 ASIC is satisfied that RTSL has adequate arrangements and resources for the 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 in relation to RTSL's current supervisory arrangements.

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 Under s792A(c), a market licensee is required to have 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 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.
- 4 ASIC is required to assess how well a market licensee complies with its obligations under s792A(c) at least once a year: s794C(2).
- 5 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).

Background

- 6 RTSL was granted an Australian market licence for an overseas market operator commencing 28 July 2004. The original licence was varied commencing 1 November 2005. A copy of the licence and licence variation are available on our website at www.asic.gov.au/markets.
- 7 RTSL's market licence permits it to operate its financial market, RTSL Treasury Broking Services (RTBS), in Australia. RTBS is an electronic

multilateral trading platform that facilitates trading by Australian participants in foreign exchange contracts and derivatives that are foreign exchange or interest rate derivatives and bonds.

- 8 The Australian participants are the Reserve Bank of Australia, Australian ADIs, subsidiaries of foreign banks, and professional investors.
- 9 RTSL is authorised and regulated in the United Kingdom by the Financial Services Authority (FSA) as a Multilateral Trading Facility under the Markets in Financial Instruments Directive (MiFID).
- 10 On 17 April 2008, Thomson Corporation of Canada acquired the Reuters Group PLC. Reuters Limited will continue to be the direct holding company of RTSL, while the ultimate parent company will change to Thomson Reuters PLC. RTSL has confirmed that there has been no impact on its ability to comply with its market licence obligations.

Our methodology

Our assessment process

- 11 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.
- 12 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 that in our view need, or may need, to be addressed to ensure ongoing compliance.

What we focused on for this assessment

- 13 Our focus in this assessment was to review how well RTSL complied with its ongoing supervisory and reporting obligations under its Australian market licence and the Corporations Act. The assessment covered the period from the 7 July 2007 to 18 June 2008.

What we considered

- 14 In conducting our assessment we:

- analysed information we received from and about RTSL in the ordinary course of our dealings with the licensee, including RTSL's annual regulatory report required under s792F;
- reviewed information from the media, RTSL's website and other sources;
- reviewed RSTL's half-yearly reports to ASIC;
- sought additional information from RTSL for the purpose of this assessment; and
- obtained information from the Financial Services Authority (FSA) about the market and RTSL.

Discussions with the foreign regulator

- 15 In assessing an overseas licensee's compliance with its obligations under s792A(c) of the Act, we place reliance on statements by the licensee's home regulator in regard to the standing of the licensee. RTSL is assessed as a low impact firm by the FSA, which impacts on the level of supervision carried out by the FSA. We have received confirmation from the FSA that they are not aware of any information or instances indicating the inadequacy of RTSL's supervisory arrangements.

Consultation

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

B Our observations

Key points

We consider that RTSL's arrangements and resources for supervising its market are adequate, including its arrangements and resources for:

- handling conflicts between its commercial interests and the 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.

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

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

Supervisory arrangements

- 17 We conclude that RTSL has adequate arrangements and resources for the supervision of its market in accordance with its obligations under s792A(c).
- 18 This conclusion is based on the following observations drawn from information gathered during our assessment process, our observations from our ongoing correspondence with RTSL, and the present operating conditions (including trading volumes and financial products traded on the market):
- RTSL confirmed the arrangements for supervising the market have not changed during the previous annual reporting period.
 - The FSA confirmed that it had no information indicating the inadequacy of RTSL's arrangements for supervising the market.
 - During our assessment, nothing came to our attention to suggest that the supervisory arrangements were not operating properly.

Conflicts of interest

- 19 A description of RTSL's supervisory arrangements for handling conflicts of interest is set out at section 2.1 of our report on our first annual assessment of RTSL (REP 64), issued in November 2005.
- 20 Based on our review of all information at hand and information provided by RTSL and the FSA, it appears that RTSL continues to have adequate

arrangements for handling conflicts of interest. Further, we are not aware of any conflict of interest events occurring during the assessment period. The FSA has no information that would cause it to suspect or conclude that RTSL has not been meeting its arrangements for handling conflicts.

- 21 We also consider that RTSL's arrangements for handling conflicts of interest are adequate because of the nature of the market and its participants. The market is restricted to participants who, it is reasonable to assume, understand the risks involved in the market and have the resources to adequately represent and protect their own interests.

Monitoring market and participant conduct

- 22 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 our report on our first annual assessment of RTSL (REP 64), issued in November 2005.

- 23 Based on our review of all information at hand and information provided by RTSL and the FSA, RTSL appears to have arrangements for monitoring the conduct of participants that are adequate for the nature of the market it operates.

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

- 25 Over the course of the next 12 to 18 months, RTSL will be purchasing and rolling out an electronic transaction monitoring capability. It is anticipated that this system will focus on RTSL's core foreign exchange market and be operated by RTSL staff in Geneva. The introduction of this system will better enable RTSL to comply with its obligations as a Multilateral Trading Facility.

Compliance with market operating rules

- 26 A description of RTSL's supervisory arrangements for enforcing compliance with the market's operating rules is set out at section 2.1 of our report on our first annual assessment of RTSL (REP 64), issued in November 2005.

- 27 We note that RTSL's arrangements for enforcing compliance with the operating rules have not changed since our last assessment (reported in REP 101, issued February 2008).

- 28 No event has been brought to our attention where an Australian participant has breached RTSL's operating rules.

- 29 Based on our review of all information at hand and information provided by RTSL and the FSA, RTSL appears to have adequate arrangements for enforcing compliance with its operating rules.

Regulation of RTSL in the United Kingdom

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

Reporting obligations

Annual regulatory report

- 32 We note that RTSL lodged its s792F annual regulatory report for the 2007 year within the required period and provided sufficient information to satisfy its obligation.

Reports required under Australian market licence

- 33 We also note that RTSL lodged with us the six-monthly reports required under its market licence. These reports were lodged with us by the required time and contained the information prescribed in s9 of the market licence.
- 34 The six-monthly reports contain details of the volumes traded on the market in Australia and globally, and list all Australian market participants.

Conclusion

- 35 Based on this assessment, we do not have any recommendations to make in relation to RTSL's current supervisory arrangements.

Key terms

Term	Meaning in this document
ASIC	Australian Securities and Investment Commission
Corporations Act	The <i>Corporations Act 2001</i> (Cth)
FSA	Financial Services Authority in the United Kingdom
Market licensee	Holder of a s795B Australian market licence
MiFID	Markets in Financial Instruments Directive
RTBS	Reuters Treasury Broking Services
RTSL	Reuters Transaction Services Limited
s794C (for example)	A section of the Corporations Act (in this example, numbered 794C)