



**ASIC**

Australian Securities & Investments Commission

**REPORT 181**

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

**ARBN 108 137 766**

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## **About this report**

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

This assessment covers the period 18 June 2008 to 27 July 2009 (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 that commenced on 28 July 2004.

Report number	Date released
REP 64	November 2005
REP 85	September 2006
REP 101	February 2008
REP 153	April 2009

# Contents

<b>Key findings and recommendations .....</b>	<b>4</b>
<b>A The assessment.....</b>	<b>5</b>
Purpose and scope.....	5
Background.....	5
Our methodology .....	7
<b>B Our observations .....</b>	<b>9</b>
Supervisory arrangements.....	9
Regulation of RTSL in the UK.....	11
Reporting obligations .....	11
Conclusion .....	11
<b>Key terms .....</b>	<b>12</b>

# Key findings and recommendations

## Key findings

- 1 ASIC is satisfied that RTSL has adequate arrangements for the supervision of its market in accordance with its obligations under s792A(c) of the *Corporations Act 2001* (Corporations Act).

## Recommendations

- 2 We do not have any recommendations to make about 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 Chapter 7 obligations too.

We use the licensee's self-assessment reports, information from its previous assessments, our observation of the licensee's performance, market intelligence and other things to form a view of how well a 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 We are 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).
- 6 This report covers the period from 18 June 2008 to 27 July 2009 (the assessment period), although we have had regard to subsequent developments.

### Background

- 7 RTSL is a UK incorporated company that operates through its branch based in Geneva. 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.

8 RTSL is authorised and regulated in the UK by the Financial Services Authority (FSA) as a Multilateral Trading Facility (MTF) under the Markets in Financial Instruments Directive (MiFID).

9 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 (HKMA) and Monetary Authority of Singapore (MAS). RTSL is recognised by MAS as a Recognised Market Operator for the transaction product Reuters Trading for Fixed Income. This electronic platform is also subject to oversight by the Hong Kong Securities and Futures Commission (SFC).

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

11 The Australian participants include the Reserve Bank of Australia, Australian authorised deposit-taking institutions (ADIs), subsidiaries of foreign banks and professional investors. In Australia, RTSL offers electronic platforms which include Dealing 3000 Spot Matching, Dealing 3000 Forwards Matching, FX Options Matching, Matching for Interest Rates, Reuters Trading for Foreign Exchange, and Reuters Trading for Fixed Income. RTSL's main business in Australia centres around its FX spot and forwards matching products, with 31 named Australian participants.

12 Annual traded volume on RTSL's FX spot and forwards matching in Australia totalled 5,355,069 million in 2008, which comprised 6.41% of RTSL's international volume. This percentage represented a decrease in traded volume of 0.23% over the previous year.

### **Regulation of RTSL in Australia**

13 In Australia, RTSL is registered as a foreign company under the Corporations Act and is an overseas-based market operator. RTSL was granted its AML to operate its EMTP under s795B(2) of the Corporations Act on 28 July 2004. This allowed RTSL to provide transaction trading in foreign exchange spot, forwards, options and interest rate derivatives. The original licence was varied, commencing 1 November 2005, to extend the financial instruments offered by RTSL to include various types of bonds and to extend participants to include professional investors.

14 The criteria under s795B(2) includes a requirement that the regulatory regime of the foreign country is sufficiently equivalent in terms of investor

protection and market integrity outcomes to the Australian regulatory regime. Consequently, while RTSL is required to comply with each of its obligations under the Corporations Act and any conditions imposed on its licence, we place a degree of reliance on the regulatory regime imposed by the FSA on RTSL.

- 15 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 dealt with 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.
- 16 RTSL's market licence is available on ASIC's website at [www.asic.gov.au/markets](http://www.asic.gov.au/markets).

## Our methodology

### Our assessment process

- 17 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.
- 18 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 focused on for this assessment

- 19 Our focus in this assessment was to review how well RTSL complied with its ongoing supervisory and reporting obligations under its AML and the Corporations Act. This assessment covered the period from 18 June 2008 to 27 July 2009.

### What we considered

- 20 In conducting our assessment we considered:
- information we received from and about RTSL in the ordinary course of our dealings with the licensee;
  - RTSL's annual regulatory report required under s792F;

- information from the media, RTSL's website and other sources;
- RTSL's six-monthly regulatory reports to ASIC;
- additional information from RTSL for the purpose of this assessment;
- information from the FSA about the market and RTSL;
- RTSL's financial report for year ended 31 December 2008; and
- exchanges and discussions between RTSL and ASIC in the ordinary course of business.

### **Communication with the foreign regulator**

- 21 In assessing an overseas licensee's compliance with its obligations under s792A(c) of the Corporations Act, we rely on statements by the licensee's home regulator with regard to the standing of the licensee. RTSL is assessed as a low impact firm by the FSA, which has a direct bearing on the level of supervision carried out by the FSA. Further information on the impact and probability assessment can be found in the *FSA Handbook* ([www.fsahandbook.info/FSA/html/handbook/SUP](http://www.fsahandbook.info/FSA/html/handbook/SUP)).
- 22 We received confirmation from the FSA that no adverse information in respect of RTSL has been brought to the FSA's attention.

### **Consultation**

- 23 Our findings are set out in Section B. 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 and resources for supervising its market including:

- 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.

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

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

- 24 We conclude that RTSL has adequate arrangements and resources for the supervision of its market in accordance with its obligations under s792A(c).
- 25 Our 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 that during the assessment period, arrangements for supervising the market have not changed and that there was no disciplinary action taken against RTSL by the FSA.
  - The FSA confirmed that it had no information indicating the inadequacy of RTSL's arrangements for supervising the market.
  - During the assessment period, nothing came to our attention to suggest that RTSL's supervisory arrangements are not operating properly.

## Managing conflicts of interest

- 26 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 issued in November 2005 (REP 64).
- 27 Based on our review of all information at hand and information provided by RTSL and 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.
- 28 The FSA has no information that would cause it to suspect or conclude that RTSL has not been meeting its arrangements for handling conflicts.
- 29 We note that RTSL does not hold client money or take principal positions.

## Market and participant supervision

- 30 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).
- 31 Based on our review of all information at hand and information provided by RTSL and FSA, we are satisfied that RTSL has adequate arrangements for monitoring the conduct of participants.
- 32 There were no investigations carried out into Australian participants during the course of the assessment period.
- 33 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.
- 34 RTSL anticipates officially implementing an electronic transaction monitoring capability by end of Q4 2009. It is expected that this system will focus on RTSL's core foreign exchange market and be operated by RTSL's staff in Geneva. In light of the focus on market supervision globally, we are currently keeping dialogue open with RTSL about the nature and focus of its supervisory arrangements and systems.

## Compliance with market operating rules

- 35 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 changed since our last assessment issued in April 2009 (REP 153).
- 36 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.

- 37 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.
- 38 On the basis of information available to us and information provided by RTSL and the FSA, we are satisfied RTSL has adequate arrangements for enforcing compliance with its operating rules.

## Regulation of RTSL in the UK

- 39 We received information from the FSA about the regulation of RTSL during the assessment period.
- 40 The FSA 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

- 41 We note that RTSL lodged its s792F annual regulatory report for 2008 with us in a timely manner with the required information.

### Reports required by market licence

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

### Rule amendments

- 43 RTSL has provided notices on rule changes in a timely manner and with sufficient information to satisfy s793D(3) of the Corporations Act.

## Conclusion

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

## Key terms

Term	Meaning in this document
ADI	Authorised deposit-taking institution
AFS licence	Australian financial services licence under s911A
AML	Australian market licence under s791A
ASIC	Australian Securities and Investments Commission
Corporations Act	<i>Corporations Act 2001</i> (Cth)
EMTP	Electronic multilateral trading platform
FSA	Financial Services Authority (UK)
MiFID	Markets in Financial Instruments Directive
MTF	Multilateral Trading Facility
RTSL	Reuters Transaction Services Limited
s794C	A section of the Corporations Act (in this example, numbered 794C)