



ASIC

Australian Securities & Investments Commission

REPORT 228

Market assessment report: Yieldbroker Pty Limited

ACN 092 250 345

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About this report

This report summarises ASIC's seventh annual assessment of Yieldbroker Pty Limited (Yieldbroker) under s794C of the *Corporations Act 2001* (Corporations Act).

This assessment covers the period 1 October 2009 to 30 September 2010 (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 Yieldbroker

Yieldbroker was granted an Australian market licence on 3 February 2004.

Report number	Report date
REP 189	January 2010
REP 163	July 2009
REP 114	February 2008
REP 87	November 2006
REP 60	October 2005
REP 45	June 2005

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Key findings and recommendations

Key findings

- 1 ASIC is satisfied that Yieldbroker has:
 - adequate arrangements for the supervision of its markets in accordance with its obligations under s792A(c) of the Corporations Act; and
 - sufficient resources to operate its markets properly and for the required supervisory arrangements to be provided under s792A(d) of the Corporations Act.

Recommendations

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

A The assessment

Key points

ASIC conducts annual assessments of market licensees, such as Yieldbroker, 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) Yieldbroker 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). In this instance, we extended the scope of the assessment to include a review of whether Yieldbroker has sufficient financial, technological and human resources to comply with its obligations under s792A(d).
- 6 This report covers the period 1 October 2009 to 30 September 2010.

Background

- 7 Yieldbroker was granted an Australian market licence (market licence) on 3 February 2004. A copy of Yieldbroker's market licence is available on ASIC's website at www.asic.gov.au/markets.

- 8 Yieldbroker's market licence permits it to operate two markets—the Dealer & Client market and Interdealer market. Both markets are electronic platforms that facilitate trading in bonds and debentures. Current products traded on the markets include Australian government and semi-government bonds, CPI-linked bonds, treasury notes, corporate bonds, Floating Rate Notes and New Zealand government bonds.
- 9 Yieldbroker also operates an auction system that is utilised by:
- the Australian Office of Financial Management for the issuance of Australian government treasury bonds, treasury indexed bonds and treasury notes;
 - the Reserve Bank of Australia to conduct long-end liquidity operations; and
 - a number of semi-government borrowers.
- 10 In the over-the-counter financial markets, the total turnover of Australian government debt securities and non-government debt securities for the 2009–10 period was \$928 billion and \$675 billion, respectively.¹
- 11 The Dealer & 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.
- 12 Yieldbroker was granted a variation to its market licence on 8 February 2010. As a result of the variation, Yieldbroker is now permitted to admit participants to its markets that are exempt from Australian financial services (AFS) licence requirements. In addition, the variation removed unnecessary trading limitations on participants.
- 13 There are 17 dealers participating in Yieldbroker's Dealer & Client market. Of these, 12 are shareholders of Yieldbroker.

Our methodology

Our assessment process

- 14 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.
- 15 We therefore use the assessment process to:

¹ Australian Financial Markets Association, *2010 Australian Financial Markets Report*, p. 2.

- 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

- 16 Our focus in this assessment was to review:
- any changes in Yieldbroker's operations from the previous year's assessment;
 - Yieldbroker's supervisory procedures—including, in particular, its arrangements for managing conflicts of interest; and
 - whether Yieldbroker has adequate resources.

What we considered

- 17 In conducting our assessment we considered:
- information we received from and about Yieldbroker in the ordinary course of our dealings with Yieldbroker, including Yieldbroker's annual regulatory report required under s792F;
 - Yieldbroker's unaudited financial statement for the year ended 30 June 2010;
 - documents produced by Yieldbroker in response to our notice under s30 of the *Australian Securities and Investments Commission Act 2001*, issued to obtain information about how Yieldbroker is meeting certain obligations under the Corporations Act; and
 - Yieldbroker's policies and procedures for the conduct of Yieldbroker in general and its supervisory responsibilities in particular.

Consultation

- 18 Our findings are set out in Section B of this report. Yieldbroker 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 Yieldbroker's clarifications.

B Our observations

Key points

We have considered the adequacy of Yieldbroker's arrangements and resources for supervising its markets, including arrangements for:

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

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

We do not have any recommendations to make about either Yieldbroker's current supervisory arrangements or resources.

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

Supervisory arrangements

- 19 We conclude that Yieldbroker has:
- adequate arrangements for the supervision of its markets in accordance with its obligations under s792A(c) of the Corporations Act; and
 - sufficient resources to operate its markets properly and for the required supervisory arrangements to be provided under s792A(d) of the Corporations Act.
- 20 This conclusion is based on the following observations:
- Yieldbroker's supervisory arrangements did not change during the assessment period. These arrangements include:
 - a Compliance Officer who is responsible for supervising the markets and participants, and has supervisory and disciplinary powers;
 - a Compliance Committee that oversees supervision and has the power to conduct disciplinary hearings; and
 - the disciplinary powers of the Board of Directors.

- participation in the markets is restricted to professional investor participants who can only trade on their own behalf or on behalf of wholesale clients;
- no serious market failures or disruptions have occurred during the assessment period; and
- no information has come to our attention to suggest that the supervisory arrangements in place have not been operating properly.

Managing conflicts of interest

- 21 Yieldbroker's arrangements for managing conflicts of interest between its supervisory and commercial interests have not changed since the previous assessment. These arrangements include:
- a Compliance Officer who is not involved in the commercial decision-making activities of Yieldbroker;
 - a requirement in the operating rules for the Compliance Committee members to avoid acting in connection with any matter that places them in a position of conflict between their duties as a member of the committee and any other duty or interest; and
 - maintenance of a conflicts of interest register to record all conflicts of interest issues and actions taken.
- 22 Yieldbroker has reported that no conflicts of interest have arisen during the assessment period.

Monitoring the markets and conduct of participants

- 23 Yieldbroker has not made any changes to the way it monitors the markets and conduct of participants. In brief:
- Yieldbroker's monitoring software, Tibtomcat, monitors all system activity in real time and provides static reporting;
 - on a weekly basis, the Compliance Officer reviews all price and trading information obtained via the system's reporting function. The reviews are aimed at identifying patterns of behaviour that may evidence breaches, or possible breaches, of the operating rules and/or the Corporations Act;
 - in relation to real-time monitoring of system activity, Tibtomcat generates alarm notices when the system detects conduct on the markets that triggers or exceeds certain parameters set by the system; and
 - the Compliance Officer provides monthly reports to the Board that include the results of the weekly review, the investigation and assessment of any issues and/or disputes, and the steps taken to resolve these issues and/or disputes.

24 Further details are set out at paragraphs 21–27 of *Market assessment report: Yieldbroker Pty Limited* (REP 189).

25 Yieldbroker has reported that there was no observed or suspected conduct in contravention of the operating rules.

Enforcing compliance with market operating rules

26 Yieldbroker has not made any changes to the way it enforces compliance with its operating rules. In brief, Yieldbroker enforces compliance through:

- undertakings by participants to comply with the Participation Deed, operating rules, the Corporations Act, Australian Financial Markets Association (AFMA) and other market conventions and any directions issued by us;
- the Compliance Officer’s power to issue warnings to participants who have breached an operating rule, or make a recommendation to the Compliance Committee for the Board to take disciplinary action; and
- the Board’s power to make a final determination by issuing warnings or fines, suspending or terminating a participant’s access to the system, removing a participant’s pricing references from the system and/or directing the Compliance Officer to notify us.

27 Further details regarding Yieldbroker’s procedures for enforcing compliance are set out at paragraphs 28–32 of REP 189.

28 Yieldbroker has reported that during the assessment period there were no investigations or disputes and the Compliance Committee was not required to convene.

Resources

29 We are satisfied that Yieldbroker has sufficient financial, technological and human resources for the required supervisory arrangements to be provided.

Financial resources

30 We have reviewed Yieldbroker’s financial position and are satisfied that it has access to sufficient financial resources to operate its markets and to provide adequate supervisory arrangements.

31 Yieldbroker’s financial resources are derived from:

- participation fees on dealers in the Dealer & Client market;
- trade fees levied in the Interdealer market; and
- income from the distribution of indicative price data.

- 32 During the assessment period, one additional shareholder purchased shares in Yieldbroker. Yieldbroker is currently owned in equal shares by 12 large financial institutions.

Technological resources

- 33 Yieldbroker's technological resources have dealt adequately with existing volumes on the markets and no serious market disruptions have occurred.
- 34 Yieldbroker's technological resources comprise various leased and owned hardware assets, software applications, and processes for trading and system auditing, monitoring and reporting. These processes include periodic reviews of system security to identify and resolve any significant risks, and to ensure that activity on the system is always secured in line with industry expectation. Yieldbroker's Helpdesk staff monitor all system logins in real time and review logins daily.

Human resources

- 35 During the assessment period, Yieldbroker relied on its General Manager, Compliance Officer and Helpdesk staff to perform the required supervisory functions for the markets. In our view, this resourcing is sufficient.
- 36 Yieldbroker's Compliance Officer left in December 2010 and Yieldbroker has replaced her with an existing staff member. In our next assessment we will review whether the compliance hand-over process was adequate and whether the replacement person is performing the supervisory functions required of the role.

Conclusion

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

Key terms

Term	Meaning in this document
AFMA	Australian Financial Markets Association
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 <p>Note: This is a definition contained in s761A of the Corporations Act.</p>
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> , including regulations made for the purposes of that Act
CPI	Consumer Price Index
market licensee	Holder of an Australian market licence
s794C (for example)	A section of the Corporations Act (in this example numbered 794C), unless otherwise specified
Yieldbroker	Yieldbroker Pty Limited