



ASIC

Australian Securities & Investments Commission

REPORT 332

Response to submissions on CP 181 Retail trading in Commonwealth Government Securities

March 2013

About this report

This report highlights the key issues that arose out of the submissions received on Consultation Paper 181 *Retail trading in Commonwealth Government Securities* (CP 181) and details our responses to those issues.

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.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

This report does not contain ASIC policy. Please see updated Regulatory Guide 223 *Guidance on ASIC market integrity rules for competition in exchange markets* (RG 223).

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A Overview/Consultation process

- 1 On 20 July 2012, we released a consultation package which proposed amendments to the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011 (competition market integrity rules) that are considered necessary to implement the Australian Government's (Government) decision to facilitate trading of Commonwealth Government Securities (CGS) depository interests by retail investors.
- 2 The consultation package included:
- Consultation Paper 181 *Retail trading in Commonwealth Government Securities* (CP 181); and
 - Attachment to CP 181 *Retail trading in Commonwealth Government Securities*, which set out draft competition market integrity rules reflecting the proposals in CP 181.
- 3 In CP 181, we outlined a number of proposals and rules that we considered were necessary to include CGS depository interests in the scope of the competition market integrity rules.
- 4 We also sought feedback on whether, and to what extent, the proposals should apply to other retail debt market products, including corporate bonds, that are or may be traded on public exchanges.
- 5 CP 181 built on the proposals in and responses to Consultation Paper 168 *Australian equity market structure: Further proposals* (CP 168), issued in October 2011, as relevant to CGS depository interests traded on public exchanges.
- 6 We also took into account the proposals in Consultation Paper 179 *Australian market structure: Draft market integrity rules and guidance* (CP 179) and tailored them to CGS depository interests. In settling our final policy, we have considered submissions to CP 179 where they affect CGS depository interests.

Scope of this report

- 7 This report highlights the key issues that were raised in the submissions to CP 181 and details our responses to those issues. It is not intended to be a comprehensive summary of all responses received, nor a detailed report on every question from CP 181.
- 8 We have limited this report to the key issues raised by industry. In particular, it focuses on extreme price movements, best execution, pre-trade and post-trade transparency, regulatory data for market surveillance, market operator obligations in a multimarket environment, and market participant obligations.

- 9 This report also deals with:
- comments on how the proposals in CP 181 might apply to other retail debt market products (including corporate bonds and depository interests in corporate bonds) that are or may be traded on public exchanges; and
 - additional matters highlighted in the submissions, including comments on the CGS depository interest model, retail investor education, and multiple market-specific rulebooks.
- 10 This report should be read in conjunction with updated Regulatory Guide 223 *Guidance on ASIC market integrity rules for competition in exchange markets* (RG 223). RG 223 gives guidance on the application of the competition market integrity rules to CGS depository interests traded on public exchanges.

Responses to consultation

- 11 We received seven written submissions to CP 181 from market participants, market operators and an industry association.
- 12 In the lead up to and during the consultation, a number of meetings were held with various local stakeholders. Information was also sought from overseas regulators and market operators.
- 13 For a list of the non-confidential respondents to CP 181, see the appendix to this report. Copies of these submissions are available on our website at www.asic.gov.au/cp. We are grateful to respondents for taking the time to provide us with their comments.
- 14 Respondents were generally supportive of our proposals. Some submissions helped us to refine our proposals.
- 15 In addition to responding to specific proposals in CP 181, respondents also provided general comments.
- 16 There was widespread support for the Government's decision to facilitate retail trading of CGS on public exchanges. Industry highlighted that the demand for CGS by retail investors will be influenced by the investment climate, and suggested that Government consider providing incentives to investors to support the development of a liquid exchange-traded CGS market.
- 17 In addition, industry noted that an active market for the trading of CGS by retail investors would be supported by promoting crucial links with the wholesale market, where arbitrage trading opportunities would add depth and liquidity to the market.
- 18 One submission agreed with the Government's phased approach to developing a deep and liquid bond market, noting that this would enable practices introduced and tested with the introduction of trading in CGS depository interests to be extended to other retail debt market products.

ASIC's response

Our approach in building a regulatory framework for the retail trading of CGS depository interests was to use the existing framework for equity market products and where necessary adopt those rules for CGS depository interests.

In formulating our proposals, we focused on a balance of protecting retail investors and encouraging them to trade CGS depository interests on a financial market while seeking to minimise impact on industry.

We have maintained this position but, in response to feedback, we have refined some of our proposals. In some cases, where we have retained our position, we will monitor the development of the market to see if changes may be needed in the future.

Specific guidance on CGS depository interests is incorporated into updated RG 223.

Timing for implementation

- 19 The rules apply on the day after the day on which ASIC Market Integrity Rules (Competition in Exchange Markets) Amendment 2013 (No. 1) is registered.
- 20 However, the requirements for regulatory data in Chapter 5A of the competition market integrity rules commence on 28 October 2013 for market operators and 10 March 2014 for market participants.

Note: In this document, a reference to a chapter, part or rule is to the competition market integrity rules, unless otherwise specified.

B Scope of the proposals

Key points

In CP 181, we outlined that the Government's decision related to the trading of CGS depository interests on public exchanges that are accessible to retail investors and that over-the-counter (OTC) or professional markets would not be affected by our proposals.

We proposed to extend the scope of the competition market integrity rules to include CGS depository interests that are traded on public exchanges, and sought feedback on how these proposals might apply to other retail debt market products (including corporate bonds and depository interests in corporate bonds).

Products to which the proposals apply

- 21 In CP 181, we proposed to extend the product scope of the competition market integrity rules to apply to all CGS depository interests that are traded on public exchanges. We also asked to what extent the proposals should apply to other retail debt market products traded on public exchanges. This feedback will assist us in building the regulatory framework to support the Government's broad agenda to develop a deep and liquid corporate bond market.
- 22 In general, there was broad agreement that the proposals should apply to CGS depository interests. Most respondents also generally agreed that the proposals should apply to other retail debt market products.
- 23 One respondent noted that not every rule for the trading of equity market products was applicable to CGS depository interests and thought that this might also be the case for corporate debt products.
- 24 Another respondent stated that, while a coherent and common set of rules for similar classes of products would be preferred, some aspects of the proposals might require reconsideration before being extended to other retail debt market products.

ASIC's response

We have proceeded as proposed.

Our approach aims to support the Government's decision to facilitate the retail trading of CGS depository interests.

We have focused on extending the competition market integrity rules to capture CGS depository interests, rather than creating a separate set of rules, to minimise the need for industry to deal with a new set of rules.

We understand that some types of retail debt market products may require tailoring of the rules in light of their particular characteristics.

Persons to whom the proposals apply

- 25 Industry generally agreed with the proposal to extend the application of the competition market integrity rules to Australian market licence holders that have entered into arrangements with the Australian Office of Financial Management (AOFM) to operate a market in CGS depository interests and market participants in such a market.
- 26 However, one respondent questioned the definition of a CGS market in the draft competition market integrity rules, noting that a market operator was licensed to offer generic products rather than a specific subset of a product. The same respondent also sought to ensure that the regulatory framework would facilitate competition and not favour trading or clearing of products by one licensed provider.
- 27 Most respondents generally agreed that the proposals should remain limited to public markets offering CGS depository interests. However, one submission noted that the interaction between OTC and retail markets might raise issues about persons to whom the proposals apply and create incentives for regulatory arbitrage.

ASIC's response

We have proceeded as proposed.

Our approach is consistent with the Government's commitment to allow retail investors to buy and trade CGS depository interests on a retail platform in a similar way to how they already trade equity market products.

Public exchanges have various operating rules and compensation arrangements in place that are designed to standardise trading and protect retail investors. Such mechanisms are generally not available, or are optional, on OTC or professional markets.

The definition of CGS market has been included in the competition market integrity rules (see Rule 1.1.4) to support the supervisory framework for these products and is separate to the licensing requirements for such markets.

We expect that market operators that offer CGS depository interests will facilitate market making services to promote liquidity and limit volatility. We also expect that market makers will draw their pricing from the OTC and professional markets where the majority of transactions occur.

The trading of CGS depository interests on a public exchange is a new step in the Australian financial landscape. Our intention is to monitor the new market and respond to events as required.

C Extreme price movements

Key points

In CP 181, we proposed to extend the requirements for extreme price movements in Chapter 2 of the competition market integrity rules (amended as proposed in CP 179) to CGS depository interests.

We proposed to apply a single extreme trade range of 20% or more away from the reference price.

Controls around extreme price movements

- 28 The proposals on extreme price movements generated the most responses to CP 181. Four out of seven respondents agreed that applying some controls around extreme price movements for CGS depository interests would be desirable.
- 29 One respondent noted that applying some controls was an important step in dealing with the threat posed by extreme price movements to market integrity or investor confidence for CGS depository interests. The same respondent suggested that ASIC should monitor extreme price movements on professional markets because CGS depository interests would draw their value from those markets.
- 30 The only respondent that did not agree with applying some controls noted that the proposal would not benefit the development of the market because it would deter participants that would otherwise be supportive of the new market.

Extreme trade range

- 31 In CP 181, we proposed an extreme trade range of 20% or more away from the reference price. We also proposed that, if there is more than one CGS market operator, ASIC would determine who is the responsible CGS market operator (and therefore who is responsible for determining the extreme trade range reference prices and initiating the imposition and lifting of trading pauses if there is an extreme trade range event).
- 32 While there was majority support for some controls around extreme price movements for CGS depository interests, there was no consensus on the proposed extreme trade range of 20% or more away from the reference price.
- 33 One market operator noted that the extreme trade range was already consistent with its existing controls for debt market products and that its impact would be limited because it had existing controls in place for anomalous orders.

As part of its submission to CP 179, the same respondent suggested that a dynamic extreme trade range might be more appropriate.

34 In contrast, the majority of respondents believed that an extreme trade range of 20% or more away from the reference price was too broad (given that CGS tended to trade in a narrow range) and sought transparency on how the threshold was determined, or suggested that we consider the threshold further.

35 One respondent suggested that applying different thresholds to different bond maturities might be more effective. Another respondent noted that it was difficult to assess the proposal because the arrangements and requirements necessary to launch a market in CGS depository interests had yet to be finalised. This respondent suggested that we adopt a flexible approach that would facilitate a cost effective regulatory response to unforeseen issues that might arise when the proposals are introduced.

36 A query on the suitability of a 10-minute trading pause was raised in the submissions to CP 181. A similar query was raised in response to CP 179.

ASIC's response

We have proceeded as proposed, but will monitor the effectiveness of the extreme trade range. We have amended the rule on trading pauses.

Our approach to retail trading in CGS depository interests is to protect retail investors, provide a simple structure and standardise our approach across products.

Our rationale for an extreme trade range of 20% or more away from the reference price was to align CGS depository interests with equity market products trading at \$100 or more. CGS depository interests will be traded in amounts representing a face value of \$100.

While we recognise that the extreme trade range may not take into account the relative stability of such products, we have decided not to modify the range. We will, however, take into consideration the feedback we have received, and will monitor the effectiveness of the 20% range as the market develops.

We also recognise that it may be difficult to assess the functionality of our proposals before the market has commenced. However, it would be inappropriate for us to allow a retail-orientated market to commence operating without a minimal framework in place.

If they choose, market operators may provide prices from OTC and professional markets as a reference for retail investors.

Based on feedback on the 10-minute trading pause, and to provide consistency across products, we have reduced the trading pause to two minutes: see Rule 2.2.2C(1)(c).

We have also updated RG 223 to reflect our policy position on extreme price movements: see Section B of RG 223.

D Best execution

Key points

In CP 181, we proposed to extend the best execution obligation in Chapter 3 of the competition market integrity rules to CGS depository interests.

A best execution obligation helps to ensure that retail investors are confident they are receiving quality of execution when they trade in CGS depository interests.

Best execution obligation

- 37 Respondents were generally not supportive of this proposal for different reasons.
- 38 One respondent noted that a principle-based approach would be sufficient to govern participant conduct in this area and suggested that existing best execution requirements were already available.
- 39 Another respondent, although supportive, believed that a best execution obligation would be largely redundant, without there being any reduction in the accompanying compliance burden, if only one market were to operate. This respondent suggested that the obligation should only come into effect if there were multiple markets.
- 40 A third respondent believed a best execution obligation should be delayed until the market had time to develop and suggested further market consultation on the proposal.

ASIC's response

We have proceeded as proposed.

A best execution obligation gives retail investors confidence that they will receive quality of execution when they trade in CGS depository interests. This in turn supports the Government's initiative to facilitate the retail trading of debt market products to allow retail investors to diversify their investment portfolio.¹

Best execution means achieving the best outcome and is not limited to trade execution where there is more than one market.

¹ See http://banking.treasury.gov.au/banking/content/reports/announcement/report_15.asp.

The best execution obligation requires brokers to obtain the best outcome and applies from the moment an order is received from a client right through to settlement. This means that both the execution venue as well as the timing of any particular trade must be taken into consideration. The best execution obligation also requires brokers to provide evidence of best execution performance on request by a client.

We note that, in our response to submissions on CP 168, we advised that we did not intend to proceed with the best execution obligation for interest rate securities quoted on ASX. This decision is separate to our decision on CGS depository interests.

E Pre-trade and post-trade transparency

Key points

In CP 181, we proposed to extend the pre-trade transparency requirement in Chapter 4 of the competition market integrity rules (amended as proposed in CP 179) to CGS depository interests.

We also proposed to extend the block trade exception to CGS depository interests if the consideration for the transaction is \$200,000 or more (consistent with the proposed exception in CP 179 for Tier 3 equity market products).

We also proposed to extend the requirements for post-trade transparency in Chapter 5 of the competition market integrity rules (amended as proposed in CP 179) to CGS depository interests.

The requirements for pre-trade and post-trade information have been tailored to the characteristics of debt market products.

Pre-trade transparency

- 41 There was general support for our proposal to extend the requirements for pre-trade transparency for equity market products to CGS depository interests.
- 42 One respondent, who did not support the proposals for pre-trade transparency proposals in CP 179, disagreed with extending the requirements for pre-trade transparency to other asset classes. However, the respondent also noted that, if sensible outcomes were achieved, it would agree to extending these requirements to CGS depository interests for consistency across asset classes. Another respondent queried the benefit of including the 'value' data field.
- 43 Respondents generally agreed to the proposal to extend the exceptions from the pre-trade transparency requirements to CGS depository interests. One market operator highlighted that it would take guidance from the market on the threshold for block trades. Another respondent noted that while it did not believe the proposal would help encourage wholesale investor interest in CGS depository interests, it agreed that the exceptions should be extended to CGS depository interests for consistency reasons.
- 44 Industry did not consider that the crossing system reporting information set out in Rule 4.3.3 should be amended for crossing systems that execute orders for CGS depository interests.

ASIC's response

We have proceeded as proposed.

However, we have removed the requirement for a 'value' field as proposed under Rule 4.1.4A following feedback on the cost versus benefit of including this data field, and to more closely align with the requirements that apply to equity market products.

Post-trade transparency

- 45 There was general support for our proposals to extend the requirements for post-trade transparency for equity market products to CGS depository interests.
- 46 However, one respondent queried the proposed requirement to include the 'median price' field on a cost-benefit perspective. A market operator queried whether the 'coupon', 'maturity date' and 'face value' fields (which tend to remain static) could be located in another section of its website.
- 47 There was industry agreement on the proposal for a threshold on the requirements for delayed reporting in Part 5.2 of the competition market integrity rules.

ASIC's response

We have proceeded as proposed.

However, in response to feedback, and to more closely align the requirements for CGS depository interests with the requirements for equity market products, we have removed the requirement for a 'median value' field (as proposed under Rule 5.1.6(3)) and 'value' field (as proposed under Rule 5.1.7A).

The 'coupon', 'maturity date' and 'face value' fields in Rule 5.1.6(3) need not be located in the same section of a website as the other data fields.

F Regulatory data for market surveillance

Key points

In CP 181, we proposed to extend the requirements for regulatory data in Chapter 5A of the competition market integrity rules (amended as proposed in CP 179) to CGS depository interests.

We have taken into account industry feedback from CP 168 and CP 179 in our response on this issue.

Enhanced data

- 48 Support for this proposal was mixed. However, all respondents expressed concern about the associated costs for industry.
- 49 One respondent noted that the enhanced data required by Chapter 5A might not help improve detection of market misconduct because the risks of insider trading or market manipulation would not be the same for CGS depository interests and equity market products.
- 50 In finalising our approach, we have taken into account industry feedback on CP 168 and CP 179. This feedback has allowed us to generally refine our proposals for the broader market, which includes CGS depository interests.

ASIC's response

We recognise that there are important implementation costs for industry in relation to the requirements in Chapter 5A. However, we believe that including CGS depository interests in the scope of these requirements will result in limited additional costs.

It will also help maintain consistency in regulatory data across products and promote retail investor confidence.

We have taken into account feedback on timing and will phase in implementation as follows:

- for market operators, the requirements in Chapter 5A apply from 28 October 2013; and
- for market participants, the requirements apply from 10 March 2014.

Note: Market participants that want to start implementing their regulatory data reporting system before 10 March 2014 may choose to provide some or all of the regulatory data required by Rule 5A.1.4 in their orders and trade reports to market operators from 28 October 2013.

G Market operators: Other obligations

Key points

In CP 181, we proposed to extend the scope of the other market operator obligations in Chapter 6 of the competition market integrity rules (amended as proposed in CP 179) to CGS depository interests.

We received varied comments on the methodology for quoting CGS depository interests.

Trading data and tick sizes

- 51 Respondents were generally supportive of this proposal.
- 52 However, one respondent suggested that the obligations in Chapter 6 need to be supplemented with requirements on the listing or primary market operator to share the data that secondary market operators are required to use in order to comply with the requirements proposed in Rule 6.2.3.
- 53 While there was no disagreement on the proposed single tick size of \$0.001, we received different comments on the intended pricing methodology for quoting CGS depository interests.
- 54 Some respondents suggested that trading should be based on yield because retail investors would more likely understand the impact of a change in yield rather than a change in price. They noted that this approach would reflect the pricing convention in OTC and professional markets and provide a more consistent pricing benchmark.
- 55 Other respondents agreed with CGS depository interests being quoted in terms of price per \$100 face value. One respondent suggested that consideration should be given to trading being conducted on a 'clean' rather than 'dirty' basis to help retail investors develop their understanding of relative value metrics across different securities.
- 56 Feedback indicated general industry support for the proposal to coordinate trading halts for CGS depository interests. However, one respondent noted that, as an announcement by the Government would be unlikely to affect the trading price of CGS depository interests, it did not consider a trading halt was likely to occur in practice.

ASIC's response

We have proceeded as proposed.

A common market integrity reason to suspend trading on a public exchange is the release of price-sensitive information. We agree

that a disclosure by the Government is unlikely to affect the price of CGS depository interests.

However, a market operator may be required to place a product into a trading suspension for a range of other market integrity related reasons that may affect the fair, orderly and transparent operation of a market. Examples include extreme price movements from an anomalous order or aberrant algorithm, a suspected market manipulation, or any other event that may undermine the price formation process.

As outlined in Section C of this report, we have reduced the trading pause to two minutes: see Rule 2.2.2C(1)(c). However, many of the obligations outlined in Chapter 6 would not apply or would have a limited impact if there were not multiple public exchanges offering retail trading in CGS depository interests.

H Market participants: Other obligations

Key points

In CP 181, we proposed to extend the requirements for market participants in Chapter 7 of the competition market integrity rules (amended as proposed in CP 179) to CGS depository interests.

Application of Chapter 7 obligations

- 57 Feedback received supported this proposal.
- 58 Industry agreed that trading in all CGS depository interests should stop during a trading market integrity halt or suspension. Industry also agreed that, where a client's orders are executed across multiple market operators, specifying the volume-weighted average price (VWAP) for CGS depository interests was an appropriate method for single trade confirmations.

ASIC's response

We have proceeded as proposed.

I Regulatory and financial impact

Key points

In developing our proposals, we aimed to minimise the impact on industry while seeking to promote retail investor confidence.

In CP 181, we sought feedback on any regulatory or financial impact concerns.

We have complied with the Government's regulatory impact analysis process and submitted a Preliminary Assessment Form to the Office of Best Practice Regulation (OBPR). OBPR agrees that the overall impact of our proposals is limited because the regulatory changes are either minor or mechanical in nature.

Costs

- 59 Although industry was very supportive of the Government's decision to facilitate retail trading of CGS on public exchanges, most respondents expressed concern about the associated implementation costs.
- 60 One respondent highlighted that the proposals in CP 181 were not supported by an independent cost-benefit analysis. Another respondent sought to clarify the market supervision cost-recovery implications on industry. It was submitted that there should be no additional supervisory costs associated with the monitoring of trading messages submitted for CGS depository interests, given that existing infrastructure will be utilised.
- 61 Another respondent referred to its submission on CP 179. While it supported the proposal for enhanced data for market surveillance (see Section F), it expressed concern about the significant system changes for market participants and the associated costs.

ASIC's response

We acknowledge that there are substantial implementation costs for industry as a result of market structure reforms.

However, we believe that the overall impact from the introduction of trading in CGS depository interests will be minor because it involves the addition of a single new product type within the scope of the competition market integrity rules.

Market operators and market participants can also choose whether it is commercially viable for them to offer and trade in CGS depository interests.

For the purposes of cost recovery, CGS depository interests will be covered under the Corporations (Fees) Regulations 2001, where relevant to the financial market.

Transactions in CGS depository interests will contribute to the total number of transactions executed on or reported under the operating rules for cash equity markets, and to the share of those transactions attributed to each market operator and participant.

Orders and transactions in CGS depository interests will contribute to the total number of messages from all cash equity markets during the billing period, and to the share of those messages attributed to each market operator and participant.

New fee arrangements, which will be developed by the Government with input from the Market Supervision Cost Recovery Stakeholder Panel, will take effect from 1 July 2013. CGS depository interests will be considered under these arrangements.

Implementation of some of the requirements for regulatory data in Chapter 5A (see Section F) has been postponed.

J Other matters

Key points

In addition to comments about the proposals outlined in CP 181, industry provided comments on:

- the CGS depository interest model;
- retail investor education; and
- multiple market-specific rulebooks.

The CGS depository interest model

- 62 A large number of respondents to CP 181 noted that industry was not consulted on the CGS depository interest model and expressed reservations about the model. These reservations included the following:
- The model may discriminate against clearing providers and trading platforms operating outside the ASX structure.
 - The model would not integrate the two separate capital market structures (i.e. the OTC/Austraclear structure and the public exchange/CHESS structure). The respondent noted that the two distinct market structures may have contributed to the lack of retail participation in fixed income markets and possibly contributed to the lack of development of a deep and liquid fixed income market.
 - The model was inconsistent with the market structure overseas, which may affect the future development of the Australian bond market.
- 63 One respondent suggested that with some amendments to the *Commonwealth Inscribed Stock Act 1911*, retail investors could become part of the same market in which wholesale investors participate.

ASIC's response

The decision to implement a CGS depository interest model was announced by the Government on 13 December 2011 and is outside the scope of CP 181.²

We understand that the CGS depository interest model is an efficient, cost-effective and timely method for facilitating trading of CGS depository interests on a public exchange.

² The Hon Wayne Swan MP, Deputy Prime Minister and Treasurer, Media Release No. 155, *Developing the retail corporate bond market*, 13 December 2011, www.treasurer.gov.au/wmsDisplayDocs.aspx?doc=pressreleases/2011/155.htm&pageID=003&min=wms&Year=2011&DocType=0.

Educating retail investors

- 64 Several respondents highlighted the importance of retail investor education. Some respondents noted that they expected to play a direct role in educating retail investors but also expected to see some Government-led initiatives.

ASIC's response

We agree that education will play a key role in the successful trading of CGS depository interests by retail investors.

We intend to undertake a targeted education campaign in the lead up to and following the launch of the CGS depository interest market. This will be implemented through our MoneySmart website (www.moneysmart.gov.au).

Each market operator and market participant should also consider the type of information they may wish to provide to their clients.

Multiple market-specific rulebooks

- 65 Two respondents expressed concern that ASIC seemed to be moving away from the intention of creating a single harmonised regulatory framework across all exchanges. In particular, one respondent expressed concern that multiple rulebooks would create unintended discrimination against competing platforms and advised that it was important for the framework to be 'platform neutral'.

ASIC's response

Consistent with our approach to supervision, we consider that each public exchange on which CGS depository interests are traded should be subject to market integrity rules specifically dealing with the activities or conduct of the market operator and market participants for those products.

This means that, if a public exchange enters into an arrangement with AOFM to provide trading services in CGS depository interests, we will consider whether the existing operating rules and market integrity rules for that exchange apply or could be applied to these interests and, if so, whether those operating rules and market integrity rules are together adequate to enable us to supervise trading in CGS depository interests on that market.

The market integrity rules for particular markets—for example, ASX or the market operated by Chi-X Australia Pty Limited (Chi-X)—provide a regulatory framework for the operator and participants of these markets.

As foreshadowed in Consultation Paper 131 *Proposed ASIC market integrity rules: ASX and SFE markets* (CP 131), our intention remains to review at a later time the market integrity rules for the ASX and Chi-X markets with a view to conducting a harmonisation exercise so that only one set of market integrity rules applies to all like markets. This harmonisation exercise will be the subject of further consultation.

Appendix: List of non-confidential respondents

- Australian Financial Markets Association (AFMA)
 - ASX Limited
 - Chi-X Australia Pty Ltd
 - National Australia Bank Ltd
 - RBS Morgans Limited
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Key terms

Term	Meaning in this document
AOFM	Australian Office of Financial Management
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited or the exchange market operated by ASX Limited
Austraclear	The electronic registry and settlement system for government, semi-government and private sector debt securities
Australian market licence	An Australian market licence under s795B of the Corporations Act that authorises a person to operate a financial market
CGS (Commonwealth Government Securities)	All securities issued by the Australian Government, comprising Treasury Bonds, Treasury Notes, Treasury Indexed Bonds and, previously, Treasury Adjustable Rate Bonds. These securities are issued either by tender or syndication
CGS depository interest	A depository interest in a class of CGS
CGS market	A market on or through which offers to acquire or dispose of CGS depository interests are made or accepted, the operator of which is a CGS market operator
CGS market operator	An entity that is licensed under s795B(1) of the Corporations Act to operate a CGS market, and has entered into arrangements with the Australian Office of Financial Management (AOFM) to offer trading in CGS depository interests
CGS market participant	A participant, within the meaning of s761A of the Corporations Act, in a CGS market
Chapter 5A (for example)	A chapter of the competition market integrity rules (in this example numbered 5A), unless otherwise specified
CHESS	Clearing House Electronic Subregister System
Chi-X	Chi-X Australia Pty Limited or the exchange market operated by Chi-X
competition market integrity rules	ASIC Market Integrity Rules (Competition in Exchange Markets) 2011—rules made by ASIC under s798G of the Corporations Act that are common to markets dealing in equity market products and CGS depository interests quoted on ASX
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of that Act

Term	Meaning in this document
CP 181 (for example)	An ASIC consultation paper (in this example numbered 181)
debt market product	Any one of a broad asset class (including corporate bonds, floating rate notes, convertible notes and hybrid securities) that provides investors with a predictable cash flow (fixed or floating coupons), which is paid on a periodic basis, with a specified maturity date
depository interest	A financial product quoted on a market that confers on the holder a beneficial interest in another financial product (underlying product) to which it relates, where legal title to the underlying product is held by a nominee company on behalf of the holder
equity market	A market on or through which offers to acquire or dispose of equity market products are made or accepted, the operator of which is an equity market operator
equity market operator	An entity that is licensed under s795B(1) of the Corporations Act to operate an equity market
equity market participant	A participant, within the meaning of s761A of the Corporations Act, in an equity market
equity market products	Shares, interests in managed investment schemes (including exchange-traded funds), rights to acquire shares or interests in managed investment schemes under a rights issue, and CHESS Depository Interests admitted to quotation on ASX
Government	Australian Government
market integrity rules	Rules made by ASIC, under s798G of the Corporations Act, for trading on domestic licensed markets
market operator	An equity market operator and/or a CGS market operator, unless otherwise specified
market participant	An equity market participant and/or a CGS market participant, unless otherwise specified
OBPR	Office of Best Practice Regulation
OTC	Over the counter
Part 5.2 (for example)	A part of the competition market integrity rules (in this example numbered 5.2), unless otherwise specified
professional financial market	A market where market users are professional investors (as defined in the Corporations Act) and participate in the market platform on their own behalf or on behalf of other professional investors
Pt 7.5 (for example)	A part of the Corporations Act (in this example numbered 7.5), unless otherwise specified

Term	Meaning in this document
public exchange	An Australian domestic licensed financial market through which participants provide services for retail investors (i.e. a licensed financial market with approved compensation arrangements under Pt 7.5 of the Corporations Act)
retail investor	A retail client as defined in s761G of the Corporations Act
RG 223 (for example)	An ASIC regulatory guide (in this example numbered 223)
Rule 1.1.4 (for example)	A rule of the competition market integrity rules (in this example numbered 1.1.4), unless otherwise specified
s795B (for example)	A section of the Corporations Act (in this example numbered 795B), unless otherwise specified