



ASIC

Australian Securities & Investments Commission

REPORT 363

Market assessment report: Reuters Transaction Services Limited

ARBN 108 137 766

August 2013

About this report

This assessment covers the period 19 May 2012 to 22 April 2013 (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 Reuters Transaction Services Limited (RTSL)

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

Report number	Report date
REP 314	November 2012
REP 255	October 2011
REP 219	October 2010
REP 181	November 2009
REP 153	April 2009
REP 101	February 2008
REP 85	September 2006
REP 64	November 2005

The assessment

Key points

ASIC is satisfied that RTSL has adequate arrangements for operating its market in accordance with its obligations under s792A(c) of the *Corporations Act 2001* (Corporations Act). We do not have any recommendations to make about these arrangements.

Scope

- 1 Under s792A(c)¹ a market licensee is required to have adequate arrangements for operating its market, including arrangements for:
 - handling conflicts between its commercial interests and the need to ensure that the market is fair, orderly and transparent; and
 - monitoring and enforcing compliance with the market's operating rules.
- 2 Under s794C(1), ASIC may do an assessment of how well a market licensee is complying with any or all of its obligations as a market licensee under Ch 7.

Approach to assessment

- 3 RTSL is one of a small number of financial markets that are licensed to operate in Australia under the foreign licensing arrangements in the Corporations Act: s795B(2).
- 4 Under the arrangements in s795B(2), a foreign financial market may be permitted to operate in this country if the operation of the market in its home jurisdiction is subject to requirements and supervision that are sufficiently equivalent to those that apply to financial markets in Australia.
- 5 In assessing whether a market's home jurisdiction satisfies this requirement, we focus on whether that jurisdiction achieves sufficiently equivalent investor protection and market integrity outcomes to those achieved for comparable domestic markets.
- 6 In addition, as a condition of RTSL's market licence, Australian-based clients of participants of RTSL's market must be first notified that RTSL is regulated primarily under the regulatory regime of the United Kingdom.

¹ In this report, references to legislation (e.g. s792A(c), Ch 7, Pt 5B.2) are references to the *Corporations Act 2001* (Corporations Act), unless otherwise specified.

7 ASIC's current strategic framework focuses on three key priorities or outcomes. These are:

- confident and informed investors and financial consumers;
- fair and efficient financial markets; and
- efficient registration and licensing.

The first two priorities are particularly important for licensed markets.

8 In the context of foreign licensed markets, the importance placed on the regulatory arrangements in the operator's home jurisdiction means that in assessing whether our strategic priorities are being met, our primary focus is on the extent to which RTSL continues to satisfy the regulatory requirements of that home regime. We also consider whether there have been any significant changes to that regulatory regime.

9 For that reason, our assessment of these types of markets focuses on a narrower subset of the key measures than we might otherwise use if the market was a comparable domestic licensed market. To determine whether RTSL has complied with its obligations to have adequate arrangements for operating its market, we focused on:

- information provided by RTSL's home regulator about:
 - the standing of RTSL;
 - any disciplinary action taken against RTSL; and
 - any reviews or on-site risk assessments of RTSL;
- information provided by RTSL about whether:
 - there have been any significant changes to the regulatory regime in the home jurisdiction (as required by s792B(4)(b));
 - there have been any complaints by market participants to RTSL about the operation of the market;
 - RTSL has taken any disciplinary action against Australian participants; and
 - RTSL's arrangements for operating the market changed; and
- whether ASIC has received any complaints about the operation of the market.

Background

10 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, forwards and options matching products.

- 11 In Australia, RTSL operates its electronic multilateral trading platform under its Australian market licence. RTSL's platform facilitates trading by Australian participants in foreign exchange contracts, interest rate derivatives and bonds.
- 12 RTSL's main business in Australia centres on its foreign exchange spot and forwards matching products, with 46 named Australian participants. The Australian participants include the Reserve Bank of Australia, Australian authorised deposit-taking institutions, subsidiaries of foreign banks and professional investors.
- 13 In Australia, RTSL offers electronic platforms, including:
- Dealing 3000 Spot Matching;
 - Dealing 3000 Forwards Matching;
 - Non Deliverable Forwards Matching;
 - Reuters Trading for Foreign Exchange; and
 - Thomson Reuters Fixed Income Trading.
- 14 The annual traded volume on RTSL's Australian foreign exchange spot and forwards matching products totalled 1,883,437 in 2012. This is a 40.4% decrease in traded volume when compared to the previous year (3,160,914).
- 15 RTSL is planning to make a number of enhancements to its monitoring and surveillance activities during the course of 2013. These include updating rule books, upgrading monitoring systems with analysis capability, and enhancing internal processes for escalation and reporting.

Regulation of RTSL in Australia

- 16 RTSL was registered under Div 2 of Pt 5B.2 as a foreign company in Australia on 23 March 2004.
- 17 RTSL was granted an Australian market licence to operate its electronic trading platform on 28 July 2004, under the foreign licensing arrangements in the Corporations Act. A copy of RTSL's market licence is available on the ASIC website at www.asic.gov.au/markets.
- 18 RTSL requires all Australian participants to hold (or be exempt from holding) an Australian financial services (AFS) licence, permitting them to trade in the products that can be dealt with on RTSL's market.

Regulation of RTSL in the United Kingdom and other jurisdictions

- 19 On 1 April 2013, a new system for regulating financial services in the United Kingdom came into effect. The Financial Services Authority (FSA), which

was previously the sole body responsible for financial services regulation in the United Kingdom, was replaced by two new regulators—the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The FCA has three statutory objectives:

- to protect customers;
- to enhance the integrity of the UK financial system; and
- to help maintain competitive markets and promote effective competition in the interests of consumers.

20 The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers, and major investment firms. One of its objectives is to promote the safety and soundness of the firms that it regulates. The PRA is part of the Bank of England

21 During the majority of the assessment period, RTSL was authorised and regulated in the United Kingdom by the FSA as a Multilateral Trading Facility (MTF) under the Markets in Financial Instruments Directive. RTSL continues to be an MTF, but from 1 April 2013 it is authorised and regulated by the FCA.

22 RTSL is also authorised or permitted, or has had confirmation that no authorisation or permission is required, to operate its electronic trading system in a number of other jurisdictions, including Hong Kong, Singapore, India, Brazil, Malaysia, Russia, Switzerland and all of the member countries of the European Economic Area.

Our assessment process

23 We use the assessment process to reach conclusions about the adequacy of the arrangements a market licensee had in place for operating its market in accordance with its obligations, and to identify issues that in our view need (or may need) to be addressed to ensure ongoing compliance.

24 In conducting our assessment we considered:

- information from the FCA about RTSL;
- information we received from and about RTSL in the ordinary course of our dealings with RTSL, including information sought from RTSL for the purpose of this assessment;
- RTSL's:
 - annual regulatory report required under s792F;
 - six-monthly licence conditions report; and
 - financial report for the year ended 31 December 2012; and
- information from the media, RTSL's website and other sources.

- 25 RTSL has had the opportunity to view and comment on the factual accuracy of a draft version of this report. Where appropriate, our findings reflect RTSL's clarifications.

Our observations

Arrangements for operating the market

- 26 We conclude that during the assessment period RTSL had adequate arrangements for the operation of its market in accordance with its obligations under s792A(c).
- 27 Our conclusion is based on our review of the measures that typically guide our assessment of RTSL and like markets, being:
- the FCA confirmed that there were no supervisory concerns and there was no disciplinary action taken against RTSL during the assessment period;
 - during the assessment period, RTSL did not notify us of any significant changes to the regulatory regime in its home jurisdiction. We were already aware that the responsibility for the authorisation and regulatory oversight of RTSL as an MTF was transferred to the FCA (see paragraph 21);
 - RTSL confirmed that during the assessment period:
 - there were no complaints by Australian participants about the operation of the market;
 - RTSL did not take any disciplinary action against any Australian participants; and
 - RTSL's arrangements for operating the market did not change; and
 - during the assessment period, we did not receive any complaints about the operation of the market.

Reporting obligations

- 28 We note that RTSL lodged its annual regulatory report (as required under s792F) with ASIC in a timely manner with the required information.
- 29 We also note that RTSL lodged its six-monthly reports with us on time and these contained the information required.
- 30 RTSL has provided notices on rule changes in a timely manner and with sufficient information to satisfy s793D(3).