Conduct risk in wholesale fixed income markets

Report 741 | October 2022

About this report

This report:

- promotes efficient, honest and fair Australian fixed income markets by highlighting key conduct risks in these markets
- summarises the findings from our thematic review of arrangements used by dealers in fixed income markets to manage conduct risks
- highlights our observations of better and poorer practices when managing conduct risks.

Contents

Executive summary

ASIC is committed to promoting the integrity of Australia's fixed income markets. It is imperative that all individuals participating in fixed income markets operate in a fair, honest and professional manner. To facilitate this, participants, including issuers, dealers and investors, in Australian fixed income markets need to identify conduct risks in their businesses and maintain robust arrangements to manage those risks. Larger participants should consider aiming for global best practice in minimising the risk of misconduct.

Fixed income markets are critical to the Australian economy and have grown rapidly in recent years. They provide financing to governments and financial institutions and help participants manage interest rate exposure. They help to implement and transmit monetary policy.

This report has three sections:

- Section 1 provides a brief overview of Australian fixed income markets
- Section 2 summarises key conduct risks in fixed income markets
- Section 3 summarises observations and better practices from our onsite reviews of dealers in fixed income markets.

> 'Participants in fixed income markets should re-evaluate their conduct risk controls to ensure they keep pace with developments in markets and technology.'
>
> **Danielle Press** | ASIC Commissioner

Our key findings

During 2019–2022, we reviewed how nine significant dealers in Australian fixed income markets managed key conduct risks. In our review, we observed a range of practices in the management of these conduct risks–these are set out in Section 3 of this report and a summary is provided below.

Our observations should not be attributed to each and all of the participants in our review. All participants in Australian fixed income markets should consider how these practices compare with their business practices.

Managing conduct risk

- **Poorer practices** included insufficient understanding of conduct risks and a failure to accurately identify fixed income specific conduct risks or map the risks to controls.
- **Better practices** reflected current market approaches and industry standards in design of conduct risk controls, timely assessment of the effectiveness of processes and controls, and reviews targeted the highest risks of misconduct and drew on lessons learned from internal and external incidents and events.

Sales and trading

- **Poorer practices** included weak controls over access to confidential information, and insufficient staff guidance/procedures on conduct risks, particularly risks relating to non-institutional clients.
- **Better practices** included clear responsibilities and protocols for managing conduct risks, detailed conflicts of interest registers (including mappings to relevant controls) and staff prohibitions on using communication channels that were not approved, recorded or monitored.

Monitoring and surveillance

- **Poorer practices** included gaps in monitoring and surveillance systems coverage of key conduct risks and communication channels (or maintaining records only for short periods), and ineffective calibration of monitoring/alert management.
- **Better practices** incorporated comprehensive data feeds (including quote, order and trade data across all fixed income securities traded), surveillance coverage of all applicable misconduct types, and effective risk-based reviews of high-risk time periods, activities, and clients.

Training, supervision, and governance

- **Poorer practices** involved insufficient coverage of Australian laws and licensee obligations in training and business manuals, supervisors purely relying on training, policies and attestations rather than performing active oversight of non-financial risks, and very limited information on conduct risk information provided to risk committees.
- **Better practices** embedded current case studies, scenarios or dilemmas into training, effectively supported supervisors with dashboards containing up-to-date information on conduct-related tasks, and evidenced robust challenge (including required actions) of conduct risk controls and monitoring at risk committees.

We note that the better practices may exceed the minimum standards required by law. This report supplements ASIC's existing regulatory guidance that is relevant to conduct risk in fixed income markets (see 'Related Information' on page 18).

1. AUSTRALIAN FIXED INCOME MARKETS

Fixed income markets involve issuing and trading securities such as government, semi-government and corporate bonds, rates derivatives and repurchase agreements (fixed income securities).

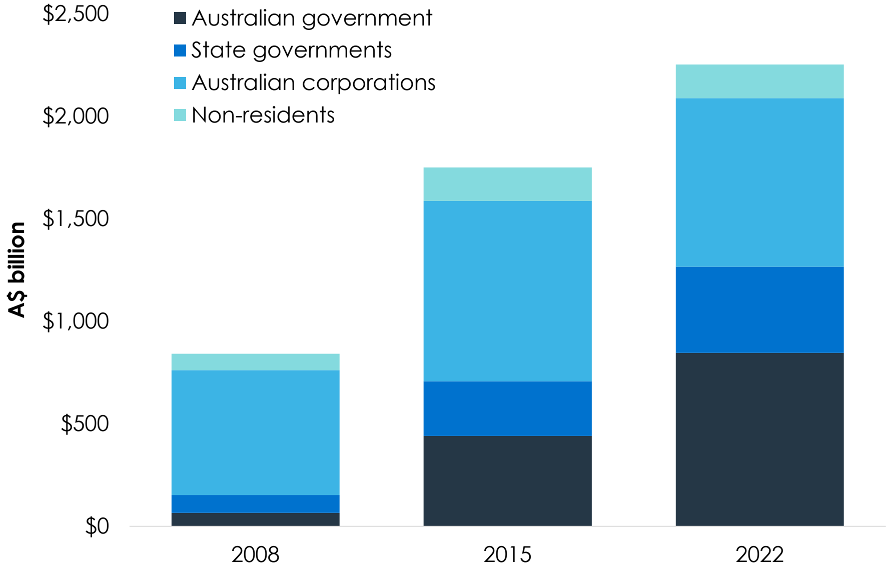
Primary fixed income markets

In primary markets, issuers of fixed income securities use dealers to:

- **raise debt funding** from investors globally through syndication, tender, reverse enquiry or private placement, and
- **access derivatives** to obtain their preferred currency and floating or fixed interest rate exposure.

Australian bond markets have almost tripled in size since the GFC, with the value of outstanding bonds approximately **$2.3 trillion** in 2022.

Figure 1: Australian bond market—Market value outstanding



Note 1: Figure 1 includes all residents' bonds and non-residents' bonds issued in Australia.
Note 2: See Table 1 for the data shown in this figure (accessible version).
Source: ABS; ASIC.

Secondary fixed income markets

Trades generally occur **over the counter (OTC)** through dealers. Trades are arranged bilaterally over communication channels such as Bloomberg chat, phone and email.

Electronic platform trading, including streamed indicative and executable prices, is increasing. It is used mainly for smaller size trades and trades in government and semi-government bonds.

Pricing and trading in secondary markets

Dealers provide prices and are counterparties to most transactions.

Interdealer brokers act as agents between dealers. They quote live bid/offer pricing (a tradeable 'market price') generated from their dealer network. Their quoted prices are important inputs to swap transactions between dealers and clients. They may facilitate transactions inside of the bid/offer spread.

Price quoting conventions for fixed income securities can be an outright yield or spread basis, i.e. a spread to bond future, interest rate or to another bond.

Quotes are provided in 'runs'/'axes' or via 'requests for quotes'. Indicative prices are also provided in end of day rate sheets.

Interest rate exposure can be hedged with other bonds, liquid bond futures and/or interest rate derivatives.

Bond futures are the main hedging instrument in fixed income markets. The 3 and 10 year Treasury Bond Futures are among the most liquid and actively traded interest rate futures globally.

Repos are typically used for short-term cash funding and collateral management. Repos can be used to borrow bonds.

2. Key Conduct Risks in Fixed Income Markets

Participants should be aware of key risks to market integrity and how they arise in fixed income markets. Participants should have appropriate controls to mitigate these risks.

Fixed income markets are predominately wholesale markets, with very little retail investor participation. Participants are mostly sophisticated, with institutional investors having access to electronic trading platforms and data providers. However, other characteristics of fixed income markets may heighten the risk of misconduct—for example:

- **OTC markets** are generally more opaque, with **less available data and less transparency** than exchange-traded markets
- **dealers** are at the centre of trading and often have more information about liquidity and prices than other participants
- **dealers** generally transact as principals in secondary markets which may present conflicts of interest with their clients
- some fixed income securities have **few price-makers**
- **fixed income securities can become illiquid** which can increase the opportunity for price manipulation.

The key conduct risks in wholesale fixed income markets—and the laws that apply to them—are set out in Figure 2.

The following four pages expand on the first four key conduct risks and set out some ways we have observed that these can be managed.

We expect participants in fixed income markets to inform ASIC/AUSTRAC of any unusual or suspicious trading activity observed. See Information Sheet 265 *Reports of suspicious activity in FICC markets* (INFO 265).

Figure 2: Key conduct risks in fixed income markets

Misleading or deceptive conduct
Section 1041E–1041H Corporations Act
Section 12DA–12DB ASIC Act

Inadequate management of conflicts of interest
Section 912A(1)(aa) Corporations Act

Insider trading
Section 1043A Corporations Act

Market manipulation
Section 908DA, 998, 1041A–1041C Corporations Act
Rules 3.1.2 and 3.1.3 Futures Markets Rules

Conduct that is not efficient, honest and fair
Section 912A(1)(a) Corporations Act

Unconscionable conduct
Section 12CA–12CB ASIC Act

Misleading or deceptive conduct

Participants need to ensure any pricing, market and product information that is communicated to others has a reasonable basis.

Participants in fixed income markets often provide **market colour** in daily **commentary**. Market colour includes information about supply and demand, new issuance transaction performance and other market information.

Market commentary example

'*Semi issuer auctions across two lines later this morning, as announced yesterday. Recent balance sheet buying means some dealers may be short. I think the bonds will be in demand and will likely clear through mids.*'

There is a risk that commentators engage in misleading or deceptive conduct to **influence the market** to their benefit. For example:

- spreading rumours or stating they have seen significant selling or buying flows when they have not
- mispricing OTC securities on end of day rate sheets. There is a greater risk of mispricing when there are few price-makers for a security
- misstating secondary turnover statistics **to issuers** in order to gain syndication fees and ancillary business.

Ways to avoid engaging in misleading or deceptive conduct

- Keep **market colour** objective. Have a reasonable basis for views that anticipate future outcomes.
- Be aware of **events, activities and transactions with a higher risk of misleading or deceptive conduct**—for example, economic events, primary issuance, illiquid securities, and transactions that were large or with less sophisticated counterparties.
- Only disseminate accurate trading information to clients or other participants. Misconduct can include false representations about how and when transactions were executed, about trades taking place when they have not (sometimes referred to as printing) or about orders/interest they have when they do not have the orders/interest (sometimes referred to as flying).
- **Base valuations on reasonable and verifiable information**, from independent sources where possible.
- **Rate sheets should reflect observable market prices** where possible.

Note: See Regulatory Guide 264 *Sell-side research* (RG 264) for guidance relating to sell-side research and Report 668 *Allocations in debt capital market transactions* (REP 668) for better practices in primary debt capital market transactions. See also the Financial Markets Standards Board (FMSB)'s, *Behaviour-pattern conduct analysis: Market misconduct through the ages* (PDF 5.02 MB), May 2022.

Conflicts of interest

Participants should identify conflicts of interest that arise in their fixed income activities and manage or avoid these. Examples of such conflicts are set out below.

Dealer and client

- For **conflicts arising in syndicated bond offerings** see REP 668.
- **Bond tenders**—client bids must be entered via 'registered bidders'. Registered bidders place their own bids into tenders as principal. Principal bids should be segregated from client bids to manage the risk of misuse of client information.
- **Misuse of client confidential information**—using client information for the dealer's self-interest ahead of the client's interests, e.g.:
  - **front-running** a client order to take advantage of the anticipated price impact of the order, including benchmark fix or market 'on close' orders
  - **treasury accessing bank client information,** including through dual roles in smaller offices, such as one person being responsible for both markets and treasury trading.
- **Client trading**—encouraging clients to trade excessively in order to generate trading revenue, i.e. **churning**.

Staff and client/dealer

- Personal transactions or securities holdings are favoured over the interests of the dealer or its clients.

Trading in bond futures as part of the **billing and delivery or 'hedge manager' role** in a material syndicated bond offering can affect the new bond price. EFP orders mean the manager receives bond futures at the time of bond pricing. These bond futures may pass to the issuer (to offset their paying fixed rate exposure) or the risk is cleared. Depending on how the risk is cleared, the bond future and final bond price may be affected.

The traders designated as the hedge manager **should not share information with public-side colleagues** about the quantity of orders on an EFP basis that have been allocated, the time of the pricing call and the hedge manager's hedging strategies.

Between clients

- **Issuer client and other clients**—for example, a dealer tells an issuer about an unexecuted client order in their bonds, unless necessary for execution, e.g. bond buyback or reverse enquiry.
- **Favouring preferred clients** over others.

Ways to manage or avoid conflicts of interest

Dealers should **document specific conflicts of interests.** Conflicts should be controlled, disclosed or avoided. Controls include information barriers, for example between treasury and markets desks. See Regulatory Guide 181 *Licensing: Managing conflicts of interest* (RG 181) and Report 742 *Managing conflicts of interest in wholesale financial markets* (REP 742). See also FMSB's *Conflicts of interest statement of good practice* (PDF 163 KB), October 2019.

Insider trading

Participants should closely supervise and have enhanced controls for activities which may pose heightened risk of communicating inside information or trading while in possession of inside information. To determine whether the information is inside information, its materiality should be assessed.

Activities with higher inside information risks

In the following activities, issuers, client and others may have inside information. Examples of activities with higher inside information risks include:

- **Primary issuance**—unpublished information about an upcoming issue.
- **Issuer communications with public side**—some regular issuers have daily conversations and transact primary issuance (**taps** or **reverse enquiries**) with public-side staff. An issuer's intention to increase the supply of bonds could constitute inside information.
- **Large transactions** may have a material price effect on a security or relevant hedging products.
- **Unpublished** price-sensitive **research or macroeconomic data**.

Ways to prevent leakage and misuse of inside information

- **Use information barriers** (physical and systems), including to limit public-side staff's access to private-side information, internal credit ratings and unpublished research. Staff who receive inside information should be wall-crossed.
- Participants should not probe clients for information about upcoming issues and related trades.
- **Identify, report and monitor** inside information.
- **Limit the communication channels that staff can use to those that are recorded where possible.** Consider the risk of communicating inside information in seating plans.
- **Public-side staff conversations with regular issuers** should be carefully controlled. Public-side staff who are not wall-crossed should not discuss or solicit material bond issuance intentions from issuers.
- Unexecuted large client orders and client intentions should be handled in line with the sensitivity of the information.
- **Distribute information** about price-sensitive research or new bond issue **to third parties at the same time.**
- Have protocols to manage information segregation for **hedge managers** on syndicated issues.

Note: Refer to REP 742.

Market manipulation

Participants should be aware of the potential for market manipulation, which can undermine market integrity.

Examples of fixed income market manipulation

Case study: Spoofing in US Treasuries

Traders used 'spoofing' techniques in US Treasuries to trade at more favourable prices than they otherwise would have been able to obtain. Artificial prices were created by entering non-genuine orders to imply the market was well bid or offered. The traders placed genuine orders on the other side of the market from the 'spoof' orders, allowing them to sell /buy at artificially high/low prices. The 'spoof' orders were then cancelled.

Reference price/financial benchmark influence

- **Mid prices on trading platforms** are important reference prices in fixed income markets, used for many different purposes. Price-makers could manipulate mids, for example, to benefit from client 'spread to mid' trades.
- **Swaps**—improperly influencing interdealer swap prices, on which the client swap rate is based, to benefit the bank.
- **Marking the close**—improperly influencing the daily closing price of a financial product.
- **Futures settlement**—manipulating the cash prices used to compute cash settlement at bond future expiry.

Creating or maintaining an artificial price

- **Bond new issue/tap/tender prices**—manipulating related secondary market prices to impact a primary issue.
- **Cross-market manipulation**—for example, manipulating futures to misprice a cash product (or vice versa).

Ways to prevent and monitor for market manipulation

Participants—Market manipulation is a criminal offence. Properly managing conflicts of interest can lessen incentives for market manipulation.

Clients should consider other price sources to verify reference prices used in a transaction.

Dealers should have fit-for-purpose monitoring and surveillance systems. Surveillance alerts should be investigated and escalated. Dealers' front office staff play a key role in supervising trading, monitoring and escalating suspicious activity.

Note: For better practices to mitigate the risk of market manipulation, see 'Monitoring and surveillance' below, Report 652 *Wholesale FX practices in Australia* (REP 652), page 9 and the FMSB's *Behaviour-pattern conduct analysis: Market misconduct through the ages* (PDF 5.02 MB), May 2022.

3. ASIC's Fixed Income Review

Our review focused on significant dealers and their controls to mitigate key conduct risks.

Scope of review

ASIC reviewed nine market-making or facilitating dealers between 2019 and 2022 (refer to Appendix 2 for a list of participants reviewed). Our review focused on the dealers' fixed income activities and their controls to manage key conduct risks.

Dealers play a central role in fixed income markets:

- dealers have substantial influence over prices in their role as liquidity providers by quoting buy and sell prices to the market
- in their various roles (providing research, sales, trading, and advice in syndicate and debt capital markets origination), dealers may have more information about markets and their clients' trading than other participants
- transacting as **principals**, dealers have an interest in future price movements that may conflict with their clients' interests
- additional conflicts of interest arise where a dealer has both a treasury desk and a client-facing dealing desk.

Our review covered dealers' sales, trading, repo and bond syndication activities. Where dealers had treasury desks, we reviewed their treasury's activities as large buy-side clients and due to the additional conflicts of interest.

We assessed how the dealers managed conduct risk, including:

- the scope and coverage of the dealer's compliance framework for their fixed income activities
- fixed income sales and trading staff's understanding of the key conduct risks in their activities and how these were controlled
- the effectiveness of monitoring and surveillance of the dealers' fixed income activities
- the dealers' training, supervision and governance arrangements.

Our assessment of dealers' activities was informed by industry standards, including the FMSB's publications.

Managing conduct risk

Participants should ensure their compliance framework is effective in controlling misconduct in their fixed income activities.

Our observations

Poorer practice observations

› Some 1LOD and 2LOD functions lacked sufficient understanding of fixed income markets to effectively manage conduct risks.

› Often conduct risks were not accurately identified in the fixed income business or were too broadly defined. Policies and procedures did not sufficiently address Australian laws.

› Some controls were not effectively designed or maintained to prevent and detect misconduct. Often there was no evident benchmarking against industry practice.

› Responsibility between 1LOD and 2LOD for identifying conduct risk and the design and ownership of related controls was often unclear.

› 'Tick-the-box' approaches to conduct risk and control assessments, including where low numbers of surveillance alerts/escalations did not trigger control reviews (i.e. to check surveillance efficacy).

› Some fixed income businesses had not been reviewed by internal audit (3LOD) for over three years.

Better practice observations

› Conduct risk policies and procedures **addressed Australian laws** and were relevant to the dealer's fixed income activities.

› Conduct risk controls reflected current **market practices** and were informed by industry standards (e.g. Australian Financial Markets Association and FMSB guidance).

› **1LOD had ownership and responsibility for conduct risks** across the business. Policies clearly set out **the roles and responsibilities** for conduct risk identification and assessment.

› Each conduct risk was mapped to **specific** preventative and detective **controls**.

› Reviews targeted **highest risks of misconduct** and drew on lessons learned from internal and external incidents and events.

› **Periodic assessments** of whether controls adequately cover, prevent and detect misconduct and remain up to date. Deficiencies were remediated promptly.

› **Well-resourced and well-trained** 1LOD and 2LOD functions.

› Detailed **recordkeeping** of incidents and complaints, including the specific conduct risk, personnel names and remedial actions.

› Regular internal audits that reported deficiencies in the management of conduct risk in fixed income businesses.

Note: Refer to Regulatory Guide 104 *AFS licensing: Meeting the general obligations* (RG 104), RG 264, Report 525 *Promoting better behaviour: Spot FX* (REP 525), REP 652 and REP 668 for relevant regulatory guidance and better practices.

Sales and trading

Fixed income sales and trading staff should understand the key conduct risks in their activities and how these are controlled.

Our observations

Poorer practice observations

- Lack of specific guidance/training in place to prevent **misleading or deceptive conduct** and limited targeted reviews to detect such conduct.
- Most dealers' identification of non-transactional **conflicts of interest** was limited to gifts and entertainment and personal account dealing.
- Insufficient controls to prevent Treasury from accessing market information or unpublished material research.
- Some traders had access to internal credit ratings and client identities that was **not on a need-to-know basis**.
- Dealers generally did not have procedures in place to ensure **fair and efficient order handling** in compliance with section 912A(1)(a). There were also conflicting accounts about how orders were handled by sales and trading staff in practice.
- Most dealers provided insufficient guidance to staff on managing heightened conduct risks in dealings with **non-institutional clients**, including product suitability, churning, unreasonable pricing and inappropriate financial product advice.

Better practice observations

- Guidance on how to avoid **front-running** client orders. Guidance also helped staff to assess the materiality of orders and to avoid trading while in possession of inside information.
- **Detailed conflicts of interest registers** with each potential conflict mapped to preventative and detective controls.
- **Clear protocols and responsibilities** for managing activities that had heightened conduct risks, including large transactions, tenders, hedge manager roles and bilateral taps.
- Quoted **prices were fair and justified** and were clearly informed by reference to market data and reasonable margins for risk.
- Reviews to ensure services are provided **efficiently, honestly and fairly**, including reviews of high margin and reference price transactions.
- Dealing staff were prohibited from using **communication channels** that were not approved, recorded or monitored.

Note: Refer to RG 264, REP 525, REP 652 and REP 668 for relevant regulatory guidance and better practices.

Monitoring and surveillance

Dealers should have fit-for-purpose monitoring and surveillance systems and processes to detect misconduct.

Our observations

Poorer practice observations

- Many dealers had **immature monitoring and surveillance systems**, with gaps in the coverage of key conduct risks.
- Some dealers **did not record voice communications** and some only kept records for short periods.
- **Poorly implemented** surveillance systems which had insufficient data feeds, alerts not triggering for several months, alerts switched off rather than recalibrated to manage false positives, unrealistic volumes of daily alerts per analyst, inadequate alert commentary and few escalated issues.
- Periods of time when new staff, products, activities or trading platforms were not monitored.

Better practice observations

- Monitoring for **market and cross-market manipulation**, such as spoofing, ramping and layering.
- Monitoring for **front-running** by reviewing hedges for material transactions (bonds, futures and swaps).
- Monitoring for **insider trading** using control room information.
- Monitoring for indicators of market manipulation including orders/trades into close, high volume of trades, unusual size/price, high quote-to-trade ratio, high profit or loss.
- Monitoring of quote, order and trade **data across all fixed income securities** traded, including repos.
- **Recording and monitoring of all communication channels** used by dealing staff.
- **Testing surveillance models** through mock misconduct scenarios.
- **Risk-based reviews of high-risk time periods** (swap and bond pricing windows, market close, futures settlement, month/quarter ends, material research issuance); **activities** (tenders, blocks, client portfolio liquidations); and **clients** (non-institutional) and staff.

Note: See Good Practice Statement 10 of FMSB's *Monitoring of written electronic communications: Statement of good practice for FICC market participants* (PDF 934 KB), September 2017.

Training, supervision and governance

It is essential that dealers' training, supervision and governance support effective conduct risk management and oversight.

Our observations

Poorer practice observations

- **Training** and business manuals with insufficient coverage of Australian laws and licensee obligations. Training generally did not include relevant fixed income examples and scenarios.
- **Supervisors** who primarily relied on training, policies and periodic attestations, with active oversight limited to financial risks.
- Often supervisors had insufficient oversight of cancelled, amended, backdated, internal or abnormal trades.
- Weaker oversight in **offshore offices** led to instances of private-side and public-side staff sitting closely together or unauthorised trading.
- **Governance**—conduct risk information provided to risk committees was often limited and focused on training completion, complaints, incidents and reactive issues (e.g. breach remediation).
- Some dealers' oversight committees did not sufficiently prioritise actions to address known gaps in their conduct risk management.

Better practice observations

- **Conduct training** that improved staff's understanding of business-specific conduct risks under Australian laws. Training included case studies, scenarios or dilemmas, and internal and external events.
- **Supervisory** staff had a thorough knowledge of relevant conduct risks and actively supervised staff activities. Supervisors were aware of all **chat rooms** their staff were involved in.
- Supervisors were supported by dashboards which provided up-to-date information on conduct-related tasks. There was **evidence** of supervisory checks.
- **Governance**—risk committee packs contained information on the current state of conduct risk management, including monitoring and surveillance arrangements. There was robust challenge at risk committees, including when low volumes of alerts/alert escalations, incidents and complaints may suggest ineffective monitoring or recording.

Note: Refer to RG 264, REP 525, REP 652 and REP 668 for relevant regulatory guidance and better practices.

Appendix 1: Accessible version of Figure 1

This appendix is for people with visual or other impairments. It provides the underlying data for Figure 1.

Table 1: Australian bond market—Market value outstanding, AUD $ billions

Issuers	2008	2015	2022
Australian government	65	440	845
State governments	87	266	420
Australian corporations	608	879	822
Non-residents	80	163	163
TOTAL	**840**	**1,748**	**2,250**

Note: This is the data shown in Figure 1.

Appendix 2: Participants reviewed

The participants reviewed as part of our onsite review of dealers in fixed income markets are listed below:

- Australia and New Zealand Banking Group Limited
- Bank of America, N.A, Merrill Lynch International and Merrill Lynch (Australia) Futures Limited
- BNP Paribas
- Citibank, N.A. and Citigroup Global Markets Australia Pty Limited
- Commonwealth Bank of Australia
- FIIG Securities Limited
- National Australia Bank Limited
- UBS AG
- Westpac Banking Corporation

Key terms and related information

Key terms

1LOD, 2LOD and 3LOD	• 1LOD—First line of defence. Owns and is accountable for risks • 2LOD—second line of defence. Control and risk specialist function. Independent of 1LOD. Manage compliance framework and challenge 1LOD. Quality assurance • 3LOD—third line of defence. Internal and external audit. Independent of 1LOD and 2LOD
ASIC Act	*Australian Securities and Investments Commission Act 2001*
axes (also known as 'runs')	Advertising of buy or sell bond interests typically by dealers, usually based on current holdings
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
dealers	Dealers in this report refers to financial institutions that deal on a principal basis and make prices in fixed income securities and/or rates derivatives
dealing	Dealing has the same meaning given under section 766C of the *Corporations Act 2001*
EFP, Exchange for physical	Parties exchange bonds for bond futures
fixed income securities	• Australian and non-Australian dollar securities (including bonds) issued by the Australian Government, state and territory governments and domiciled corporations • Kangaroo bonds issued in Australian dollars by non-resident entities including quasi-sovereigns, supranationals and corporates Does not include money market products for the purposes of this report
FMSB	Financial Markets Standards Board
futures	Bond futures contracts
Futures Markets Rules	*ASIC Market Integrity Rules (Futures Markets) 2017*—rules made by ASIC under section 798G of the Corporations Act
GFC	Global financial crisis
INFO 265 (for example)	An ASIC information sheet (in this example numbered 265)
investors	Investment funds, hedge funds, authorised deposit-taking institutions (banks), non-bank financial institutions, governments, insurance companies, central banks, pension funds, sovereign wealth funds, private banks, corporations, government sector agencies and the Reserve Bank of Australia. Majority of investors are wholesale (Corporations Act)

issuers	Debt capital market issuers are parties that sell bonds or other debt instruments to raise funds. Issuers include supranational organisations, governments, banks and other corporate entities
non-institutional clients	Non-institutional clients include corporates, local councils, self-managed super funds, private banking clients
OTC	Over the counter
prices	The terms ‘prices’ and ‘pricing’ are used throughout this report to capture all quoting conventions
private-side staff	Staff with ongoing access to inside information
public-side staff	Staff who should not have ongoing access to inside information, unless wall-crossed
rates derivatives	Exchange traded and OTC derivatives that are used to manage exposures to interest rate risks, including interest rate swaps, interest rate futures, bond futures, FX spot, FX forwards, forward rate agreements, overnight index swaps, cross-currency swaps (to hedge exposures arising from interest rates and fixed income exposures), credit default swaps
registered bidders	Bidders who register with the Australian Office of Financial Management (AOFM) to participate in the AOFM’s primary market tender system
REP 668 (for example)	An ASIC report (in this example numbered 668)
RG 264 (for example)	An ASIC regulatory guide (in this example numbered 264)
repo	In a repo, one party sells an asset (usually fixed-income securities) to a second party at one price and commits to repurchase the same asset from the second party at a different price at a future date. The buyer (as the new owner) can sell the securities, including in the event that the seller defaults on the agreement. In Australia, government and semi-government bonds are commonly used as collateral in repos, though other assets are also sometimes used (including corporate bonds)
semis	Bonds issued by an Australian state or territory government

Related information

ASIC documents

RG 104 *AFS licensing: Meeting the general obligations*

RG 181 *Licensing: Managing conflicts of interest*

RG 264 *Sell-side research*

INFO 265 *Reports of suspicious activity in FICC markets*

REP 525 *Promoting better behaviour: Spot FX*

REP 652 *Wholesale FX practices in Australia*

REP 668 *Allocations in debt capital market transactions*

REP 742 *Managing conflicts of interest in wholesale financial markets*

Legislation

ASIC Act, section 12CA–12CB, 12DA–12DB

Corporations Act, section 908DA, 912A(1)(a)–(aa), 998, 1041A–1041C, 1041E–1041H, 1043A

Rules

Futures Markets Rules, Rule 3.1.2, 3.1.3

Other references

FMSB *Behaviour-pattern conduct analysis: Market misconduct through the ages* (PDF 5.02 MB)

FMSB *Conflicts of interest statement of good practice* (PDF 163 KB)

FMSB *Monitoring of written electronic communications: Statement of good practice for FICC market participants* (PDF 934 KB)