



**ASIC**

Australian Securities & Investments Commission

**REPORT 101**

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

**ARBN 108 137 766**

February 2008

**About this report**

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

### About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

**Consultation papers:** seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

**Regulatory guides:** give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

**Information sheets:** provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

**Reports:** describe ASIC compliance or relief activity or the results of a research project.

### Previous reports on RTSL

RTSL was granted an Australian market licence (AML) commencing 28 July 2004. The AML was varied with effect 1 November 2005.

Report number	Date released
REP 64	December 2005
REP 85	November 2006

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# Key findings and recommendations

## Key findings

- 1 ASIC is satisfied that Reuters Transaction Services Limited (RTSL) has adequate arrangements and resources for the supervision of its market in accordance with its obligations under s792A(c) of the Corporations Act.

## Recommendations

- 2 ASIC does not have any recommendations to make in relation to RTSL's current supervisory arrangements.

## A The assessment

### Key points

ASIC conducts annual assessments of market licensees, such as RTSL, because it is required to do so under s794C of the Corporations Act.

The scope of our assessment must always include the obligations in s792A(c) but we can include other Chapter 7 obligations too.

ASIC uses the licensee's self-assessment reports, information from its previous assessments, ASIC's 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 ASIC is required to assess how well a market licensee complies with its obligations in s792A(c) at least once a year (s792C(2)).
- 4 A market licensee is required to have adequate arrangements for supervising the market (under s792A) including 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.
- 5 In addition, we are permitted to extend the scope of our assessment to review how well RTSL complies with any or all of its obligations under Chapter 7 (s794C(1)).

### Background

- 6 The AML permits RTSL to operate the financial market, Reuter Treasury Broking Services (RTBS), in Australia. RTBS is an electronic multilateral trading platform that facilitates trading by Australian participants in foreign exchange contracts and derivatives that are foreign exchange or interest rate derivatives and bonds as described in its AML.
- 7 The Australian participants are the Reserve Bank of Australia, Australian ADIs, subsidiaries of foreign banks, and professional investors.

- 8 RTSL is authorised and regulated in the United Kingdom by the Financial Services Authority (FSA) as an alternative trading system. It is a subsidiary of Reuters Limited and its parent company, Reuters Group Plc.
- 9 RTSL notified ASIC in May 2007 of a possible merger of Reuters Group Plc with the Thomson Corporation pending clearance from the relevant regulators. Until such clearance is granted no actual integration or strategic plans can be implemented. We are awaiting further developments on this merger from Reuters before assessing whether any future regulatory issues might arise in relation to the merger.
- 10 A copy of RTSL's AML is available on our website at [www.asic.gov.au](http://www.asic.gov.au).

## Our methodology

### Our assessment process

- 11 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.
- 12 We therefore use the assessment process to:
- reach conclusions about the adequacy of the arrangements a market licensee has in place for supervising its market in accordance with its obligations under the Corporations Act at the time of the assessment; and
  - identify issues, which in our view need, or may need, to be addressed to ensure ongoing compliance.

### What we considered

- 13 In conducting our assessment we:
- analysed information we received from and about RTSL in the ordinary course of our dealings with the licensee, including RTSL's annual regulatory report required under s792F;
  - reviewed information from the media, RTSL's website and other sources;
  - reviewed RTSL's half-yearly reports to ASIC;
  - sought additional information from RTSL for the purpose of this assessment;
  - obtained information from the FSA about the market and RTSL;
  - considered how well RTSL might comply with its obligations in the future; and
  - RTSL's compliance with its reporting obligations under the Corporations Act.

### **Consultation**

- 14 RTSL has had the opportunity to view and comment on the findings contained in a draft version of this report. Where appropriate, this final report reflects RTSL's responses.

### **What we focused on for this assessment**

- 15 Our focus in this assessment was to review how well RTSL complied with its ongoing supervisory arrangements and reporting obligations under its AML and the Corporations Act.

## B Our observations and recommendations for RTSL

### Key points

As part of this assessment, we have considered the adequacy of RTSL's arrangements and resources for supervising its market including:

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

ASIC has also considered RTSL's compliance with its reporting obligations under the Act.

### Supervisory arrangements

- 16 We conclude RTSL has adequate arrangements and resources for the supervision of its market in accordance with its obligations under s792A(c).
- 17 This conclusion is based on the following observations drawn from information gathered during our assessment process, our observations on the basis of our ongoing correspondence with RTSL, and the present operating conditions (including trading volumes and financial products traded on the market):
- RTSL confirmed the arrangements for supervising the market have not changed during the previous annual reporting period.
  - The FSA confirmed that it had no concerns with RTSL's supervision of RTBS.
  - During our assessment, nothing came to our attention to suggest that the supervisory arrangements were not operating properly.

### Conflicts of interest

- 18 ASIC is not aware of any significant conflicts of interest events occurring during the assessment period.
- 19 ASIC considers that RTSL's arrangements for handling conflicts of interest are adequate because of the nature of the market and its participants.

- 20 The market is restricted to participants who, it is reasonable to assume, understand the risks involved in the market and have the resources to adequately represent and protect their own interests.

### **Monitoring market and participant conduct**

- 21 RTSL reported a system outage to ASIC affecting all users at 20:13 GMT on 22 July 2007. The system was restored at 04:30 GMT on 23 July 2007. An index issue was identified and a database restore performed to bring the database into a good state. Post implementation checks in a non-live trade mode were successful. Reuters has completed a full analysis of the issue and based on this analysis, changes have been implemented to rectify the error.
- 22 RTSL has arrangements for monitoring the conduct of participants that are adequate for the nature of the market it operates.
- 23 There were no investigations carried out into Australian participants during the course of the assessment period.

### **Compliance with market operating rules**

- 24 RTSL has adequate arrangements for enforcing compliance with its operating rules. During this assessment period, ASIC is not aware of RTSL substantially changing the process, outlined in its AML application, for enforcing compliance with its operating rules.
- 25 No event has been brought to ASIC's attention where an Australian participant breached RTSL's operating rules.

## **Regulation of RTSL in the United Kingdom**

- 26 ASIC received information from the FSA about the regulation of RTSL during the assessment period.
- 27 The FSA has advised ASIC that they have no concerns regarding RTSL's supervisory arrangements. Further FSA advised it has not taken any disciplinary action against RTSL during this reporting period.

## Reporting obligations

### Annual regulatory report

- 28 ASIC notes that RTSL lodged the s792F annual regulatory report for the year 2006 within the required period and provided sufficient information to satisfy its obligation.

### Reports required by AML

- 29 RTSL 6-monthly reports were lodged with ASIC within the required time and contained the prescribed information as required under s9 of its AML.
- 30 The reports contain details of the volumes traded on the market in Australia and globally, and list all Australian market participants.

## Conclusion

- 31 Based on this assessment, ASIC does not have any recommendations to make in relation to RTSL's current supervisory arrangements.

## Key terms

Term	Meaning in this document
AML	An Australian market licence under s7695B
ASIC	Australian Securities and Investments Commission
Corporations Act	The <i>Corporations Act 2001</i> (Cth) including any regulations made for the purposes of the Act
FSA	Financial Services Authority in the United Kingdom
market licensee	The holder of an AML
RTBS	Reuter Treasury Broking Services
RTSL	Reuters Transaction Services Limited
s794C	A section of the Corporations Act (in this example, numbered 794C)