

Manager, Financial Markets Unit
Corporations and Capital Markets Division
The Treasury
Langton Crescent
Parkes, ACT. 2600
Australia

Date: 10th August 2012
Subject: Council of Financial Regulators: Competition in the clearing and settlement of the Australian cash equity market.

Dear Sirs,

ABN Amro Clearing (AAC) has taken an active interest and where required a proactive role in those markets where it provides services. Examples include the European Multilateral Clearing Facility NV (EMCF), The Order Machine (TOM) and The Holland Clearing House.

We address each of the questions in the discussion paper in turn:

Competition in Clearing and Settlement

Q1. Do you agree that clearing of ASX securities is contestable?

A1. We agree, in principle, that competition in clearing of ASX securities is contestable. Our only reservations are that this has not been market tested. Contestability of Clearing can not be viewed in isolation. A Central Counter Party (CCP) requires access to the domestic Central Securities Depository (CSD) in order to effect settlement / change of ownership.

Q2. Do you agree that there is no evident demand for competition in the settlement of ASX securities? If so, do you have any views on whether price or non-price issues could emerge in relation to ASX's settlement facility?

A2. We see no immediate and compelling demand for competition in Settlement. However, we strongly believe both price and non-price barriers to access for settlement may emerge.

In our view, the absence in competition amongst settlement facilities primarily relates to the business model.

Trading	Gross fees / (rebate) per trade side
Clearing	Gross fees per trade side
Settlement	Net fee per settlement (one line entry per day's trading activity per instrument per customer).

ASX Settlement could seek to foreclose clearing competition by introducing new or as yet undefined ASX Settlement (ASXS) access requirements. Again these could be both in price and non-price forms. For example ASXS could seek to introduce new access criteria for Clearing and Settlement Facility Licensees that are designed to compete with their own offering.

Market Functioning.

Q3. Have the Agencies identified the right issues around fragmentation?

A3. There may be an over emphasis on some of the hypothetical detrimental aspects of fragmentation (e.g. illiquid securities, risk "race to the bottom" etc.) which ignores the need to structurally reduce costs in the industry over the longer term.

Q4. Do you have views on whether particular product or participation segments of the market for ASX securities would be affected in the event that competition in clearing emerged?

A4. The introduction of competition will concentrate on liquid securities and is unlikely to affect the less liquid equities any more than is currently the case.

It should be recognised there is an unintended cross subsidy between liquid and illiquid securities. This has evolved over time and has become more apparent with the increase in volumes following the advent of electronic markets.

We draw attention to the LCH.Clearnet SA Rate card as an example of differentiated pricing between 'blue chip' (index constituent stocks) and illiquid stocks.

A. Guaranteed Postings

LCH.Clearnet SA charges a fixed fee per guaranteed posting:

- €0.05 per posting for BlueChips stocks (AEX25, BEL20, CAC40 and PSI20 components stocks)
- €0.10 per posting for any other security (other equities, bonds, ETFs, warrants ...)

http://www.lchclearnet.com/fees/sa/products/cash_markets.asp

Q5. Are there any other factors related to the effective functioning of the market for ASX securities that should be considered?

A5. In a competing CCP model the market would be provided with more services at a better price. Consequently the frictional cost of trading would be reduced for all securities, including illiquids. Competitive clearing would facilitate a reduction in the overall costs of Financial Market Infrastructure (FMI).

“Un-netting” is a misleading term. Un-netting also evidences a diversification of risk. Typically CCPs have various ways of managing risk. Positions included in any portfolio management of risk can have a more material impact than simple “un-netting”.

Q6. Do you have views on the stability and effectiveness of interoperability in other jurisdictions? Should interoperability between competing CCPs be encouraged in Australia?

A6. The leading reference case for interoperability is Europe. The major impediment to European interoperability is having equal access across CCPs to trade feeds. See SIX Clear slide:

European cash equities market currently divided in two camps

	pan-European				CH	UK	Nordics	E	I	CEE	D	GR	B, F, NL, P	N	PL	
	BATS Chi-X Europe MTF	Turquoise MTF	SIX Swiss Exchange	LSE			NASDAQ OMX	BME	Borsa Italiana	CEES EG	Deutsche Börse	Helix	NYSE Euronext	Oslo Bors	Warsaw Exchange	
SIX x-clear	LIVE	LIVE	LIVE	LIVE			?									
EMCF	LIVE	LIVE	?				LIVE									
EuroCCP	LIVE	LIVE	?				?									
LCH.Cleantnet Ltd	LIVE	LIVE	LIVE	LIVE											?	
CC & G								LIVE								
CCP.CEE									LIVE							
Eurex Clearing											LIVE					
Helix												LIVE				
KDPW_CCP																LIVE
LCH.Cleantnet SA													LIVE			
Oslo Clearing														LIVE		

~50%

Competition among 4 CCPs

~50%

Clearing services uncontested until now, little incentive for vertically integrated market infrastructures to open up without regulatory pressure (EMIR, MiFIR)

In our view interoperability should be enabled in Australia, however in order to mitigate project risks and to reduce the regulatory burden on the industry a phased approach should be adopted.

Q7. Can you suggest any other responses to the issues raised in relation to market functioning?

A7. There are no specific issues we wish to raise at this time in this forum.

Financial Stability

Q8. Do you consider that there is a risk of a race to the bottom on risk control standards in the event that competition in clearing emerged?

A8. We see no danger of risk standards being compromised. There are too many natural remedies or checks and balances in play. For example:

- The owners of the CCP have significant reputational risk.
- The owners of the CCP have capital at risk.
- New participants need to feel confident in the quality and reliability of the CCP.
- A CCPs primary business purpose is risk management and mitigation. To compromise on core values is to compromise its own business model

Q9. Are you aware of such a race to the bottom in other jurisdictions in which competition in clearing has emerged? What risk control standards have been impacted and how?

A9. We are not aware of any "race to the bottom" in terms of CCP risk management standards.

Q10. Do you have views on the risks that the exit of CCPs could pose to financial stability?

A10. The orderly exit of a CCP should not disrupt a market. Given both the CPSS / IOSCO and RBA FSSs it is anticipated that the CCP will have more than sufficient operating reserves.

Q11. Do you have comments on the issues identified around access to ASX Settlement and settlement arrangements for non-ASX CCPs more generally?

A11. As stated above, ASXS can introduce both price and non-price barriers to entry.

As ASX control the current Delivery versus Payment (DvP) processes, ASXS can differentiate their service on access to the finality and certainty of the DvP "batch" run. Settlement arrangements for a competing CCP should be 'materially equivalent' to those in place for ASX's cash equity CCP, ASX Clear.

Q12. Are there any other factors related to financial stability that should be considered?

A12. We are not specifically aware of any other financial stability factors. We do agree with the principle "to do all things necessary to reduce systemic risk". We feel the annual review process will identify any material issues that need to be addressed, proportionally, under the RBA FSSs.

Q13. To what extent do you consider that application of risk-management standards consistent with the CPSS-IOSCO Principles for financial market infrastructures would mitigate the risk of a race to the bottom?

A13. The Standards are exactly that. Standards to observe and adhere to. What is just important is the internal practice, process and culture. The CPSS-IOSCO Standards are a valuable reference in the overall context. More practical and immediate considerations, as detailed in the response to Q8, will mitigate or prevent a race to the bottom.

Q14. To what extent do you consider that exit plans and ex ante commitments would mitigate the risk of instability in the event of the exit of a competing CCP?

A14. Adherence to the RBA FSSs and CPSS-IOSCO recommendations should be more than sufficient to allow for the orderly exit of a CCP from the market.

Q15. Do you have views on what ex ante commitments might be reasonable and how these might be imposed without creating barriers to entry?

A15. We believe the requirement for 6 months working capital is more than adequate.

Q16. To what extent do you consider that location requirements could help to mitigate the risk of diminished regulatory influence and control in the event that an overseas-based CCP provided clearing services for ASX securities?

A16. Location requirements and the proximity service that comes with that is of great value. However the materiality and trigger points need to be considered. A market share that is considered material enough for Regulators to recommend a local presence may be significantly different from the required market share required for an offshore CCP to justify the expense associated with establishing local operations.

Q17. Do you have views on what location requirements – and other measures to enhance regulatory control and influence – might be reasonable in the case of clearing ASX securities and how these might be imposed without creating unnecessary impediments to entry?

A17. No comment.

Q18. Do you have views on what would constitute appropriate settlement arrangements for non-ASX CCPs?

A18. Non-ASX CCPs should be free to offer any settlement arrangements they feel are commercially viable. In our experience, settlement in the domestic CSD is the globally preferred model.
Refer also to Question 11.

Q19. Do you have views on what would constitute a reasonable basis for co-operation with overseas regulators?

A19. Defined and executed MoUs with attached escalation procedures.

Competition and Access

Q20. Can you suggest any other responses to the issues raised in relation to financial stability?

A20. We are not specifically aware of any other financial stability factors. We do agree with the principle "to do all things necessary to reduce systemic risk". We feel the annual review process will identify any material issues that need to be addressed, proportionally, under the RBA FSSs.

Q21. Do you have views on the effectiveness of the existing policy and legislative framework in addressing access to ASX Settlement?

A21. Whilst the existing policies look robust, we are not aware of them being applied and tested in the context of FMIs.

Q22. Do you have views on whether transitional or longer term regulatory arrangements would be most appropriate in addressing any potential issues that could emerge in relation to competition and access to ASX Settlement?

A22. We feel a combination of policy responses will be required. From public timetables for transition to longer term policy review.

Q23. Can you suggest any other options (regulatory or non-regulatory) to address any potential issues that could emerge in relation to competition and access?

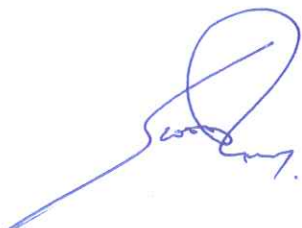
A23. A published timeframe (including costs) for the facilitation of competition in Australian Equity Clearing.

We would like to thank the Council of Financial Regulators for taking the time to consult with the industry on the evolution of the Australian cash equity market in the context of the global changes taking place in the industry. We believe this consultation is necessary and timely.

Certainly greater efficiency and competition in post trade services leads to a more effective capital market, yielding benefits to all Australians and market users alike.

We hope you find these remarks helpful.

Best regards,



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