



Investment & Financial Services Association Ltd

21 August 2007

Ms Tracey Lyons  
Director, Markets Regulation  
Australian Securities and Investments Commission  
Level 18  
No. 1 Martin Place  
Sydney NSW 2000

Email: [tracey.lyons@asic.gov.au](mailto:tracey.lyons@asic.gov.au)

Cc: Parliamentary Secretary to the Treasurer – the Hon Chris Pearce MP  
[chris.pearce.mp@aph.gov.au](mailto:chris.pearce.mp@aph.gov.au)

Dear Tracey

**IFSA Submission: Competition for Market Services – Trading in Listed Securities and Related Data**

Thank you for the invitation to comment on ASIC's Consultation Paper 86 – Competition for Market Services – Trading in Listed Securities and Related Data.

IFSA is a national not-for-profit organisation which represents the retail and wholesale funds management, superannuation and life insurance industries. IFSA has over 145 members who are responsible for investing over \$1 trillion on behalf of more than ten million Australians.

IFSA supports the separate market license proposals put forward by AXE ECN Pty Ltd and Liquidnet Australia Pty Ltd.

IFSA believes that competition for execution and reporting services should be welcomed. The existence of regulated alternative trading and reporting platforms will allow market participants to effect trades in a more efficient and effective manner – enabling them to select the trading platform which provides the best overall outcome for that trade – i.e. looking at both the total cost and market impact.

In order for Australia's financial markets to continue to grow and develop, it is important our financial services regulatory regime is able to respond to new

market developments in a manner which is both timely and consistent with other major international markets.

Consequently, IFSA does not believe that any of the issues raised in the consultation paper are insurmountable. In respect of the issues that have been identified in the consultation paper, IFSA believes that ASIC should considering erring on the side of minimal or no intervention.

Hence, rather than introduce or impose additional conditions/requirements on the market operators before they commence operating, IFSA suggests that ASIC conduct a review following 12-24 months of them having been in operation.

A review would enable ASIC to obtain the views of market participants during this period and would also importantly allow ASIC to determine whether, in fact, the existence of the new market service providers has resulted in a decline in existing quality or integrity levels in the markets more generally.

Having noted our preference generally in this area, please find below, brief comments on a number of the more contentious issues you have identified.

#### *Best execution*

As institutional investors are arguably likely to be the main users of these markets, any concerns about the ability of AXE ECN being able to provide 'best execution' to clients should be greatly minimised. Institutional investors have sophisticated systems for tracking and analyzing the costs and efficiency of trades, and will logically seek to trade on the market which provides the best overall outcome for any given trade.

As a result, the continued existence and commercial viability of these markets is directly linked to their integrity and effectiveness, and ability to deliver 'best execution'.

#### *Pre-trade transparency*

Pre-trade transparency is not seen as a major concern to the overall effectiveness of either market. Indeed, the opposite may be more of a concern, that is, the existence of full pre-trade transparency will remove some of the most compelling reasons for conducting 'crossings' – less information leakage and as a result lower market impact.

As noted in the consultation paper, pre-trade transparency is likely to be of even less concern on the proposed Liquidnet market.

Should ASIC be uncertain as to how to proceed in this area, IFSA again suggests that ASIC defer any response until it has had a reasonable opportunity to observe the new markets in action.

*Market fragmentation*

IFSA believes that this is unlikely to occur given the existence of market data vendors in the market who will have a commercial interest in having access to all market trade information. Similarly, there will be strong demand from both "buy" and "sell" side participants for this data to be provided on a consolidated basis. It is our understanding that commercial arrangements for the consolidation of all market trade data are in the process of being negotiated.

Once again, thank you for this opportunity to comment on these important market developments.

If you have any questions in relation to this submission, please do not hesitate to contact me or Martin Codina on (02) 9299 3022.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richard Gilbert', with a stylized flourish at the end.

**Richard Gilbert**  
Chief Executive Officer