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21 November 2008

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Michele Bullock  
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By email

Dear Michele

### **RBA Consultation Paper: Disclosure of Equities Securities Lending**

Thank you for the opportunity to provide comment on the Reserve Bank of Australia's (RBA) proposal to amend the Financial Stability Standards to require a facility that settles cash equity transactions to collect and publish data on securities lending data. We appreciate the consultative approach the RBA has taken, including engagement with the Australian Securities Exchange (ASX), in developing its proposals to increase the transparency around securities lending activities.

Securities lending provides a valuable mechanism to facilitate the efficient settlement of transactions in Australian equities and has been an important factor contributing to the low settlement failure rate in Australia.

ASX announced in May 2008, a range of other measures to promote further settlement efficiency and improve the management of settlement risk. These measures included an increase in daily settlement delay fees, the introduction of an automatic close-out arrangement for settlement shortfalls that remain after the close of business on T+5 and referring any outstanding settlements beyond T+10 to ASX Market Supervision for investigation and possible referral to the Disciplinary Tribunal.

The ASX supports the RBA's proposed amendment to the Financial Stability Standard for settlement facilities to promote greater transparency in securities lending and contribute to enhancing the management, monitoring and understanding of the settlement process. ASX also acknowledges, when viewed in conjunction with separate proposals to improve the transparency of covered short selling in Australia, greater transparency can improve the functioning of equity markets and settlement processes.

ASX notes that this is to be achieved through a change to the standard to require a settlement facility to make "sufficient information publicly available" to enable a participant to understand the financial risks they face through participating in the facility. This requirement is supplemented in the guidance by a particular reference to securities lending data being an example of information that should be provided by a facility.

While ASX acknowledges, and supports the RBA's preference for a principles based approach to the standard, we also recognise that the specific wording does not limit what information may be required to be provided in the future to comply with the standard. We believe that any future proposals to expand the information required to be collected and disseminated by a settlement facility should first be the subject of consultation with the settlement facilities and its participants to enable a thorough analysis of the costs and benefits of collecting the data in question and how its provision will improve the assessment of settlement risk.

#### **Australian Securities Exchange**

Australian Stock Exchange  
Sydney Futures Exchange

Australian Clearing House  
SFE Clearing Corporation

ASX Settlement and Transfer Corporation  
Austraclear



As indicated in its recent position paper on Short Selling and Securities Lending, ASX believes that amending the standard provides a clear policy rationale for amendments to the ASX Settlement and Transfer Corporation (ASTC) rules necessary to require settlement participants to provide additional information to ASTC, given the publication of securities lending data is arguably outside the traditional requirement of ASTC to provide a fair and effective settlement facility.

ASX confirms that the Clearing House Electronic Subregister System (CHES) operated by ATSC, can provide a mechanism for collecting information on securities lending activity conducted by ASTC participants, which could then be disclosed to the market. As noted in the consultation paper, the use of CHES to facilitate the collection of securities lending data means that some data, such as internalised securities lending activity and stock sourced offshore may not be captured. Therefore the data represents a 'barometric' rather than a 'scientific' indicator.

It will be important to clarify that any disclosure of data will need to be assessed in context of the varied activities stock lending supports and therefore not attributed directly as a proxy for other proposed disclosure initiatives and prevailing market activity.

ASX notes the RBA's desire for the new disclosure requirement to be implemented as soon as possible and at least before the end of the first quarter of 2009.

CHES would require systems changes to enable it to collect securities lending data in a manner consistent with the RBA's proposals. ASX notes there are several other CHES updates which are also targeted at addressing settlement risk issues. ASX believes there are clear operational efficiencies, for both ASTC and settlement participants, for all of these CHES updates to be processed in a single release.

ASX currently expects that the changes, including those related to disclosure of securities lending data, would be in place by June 2009 (subject to market feedback and normal system design and implementation issues). This does not meet the RBA's preferred deadlines, however ASX stands ready to work with the RBA and other interested stakeholders in providing interim and longer term solutions for the collection and subsequent publication of the data to meet the policy objectives identified in the most efficient and cost effective manner.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Colin R. Scully', with a long, sweeping horizontal line extending to the right.

Colin R. Scully  
Group Executive  
Operations