

20 November 2008

Attention: Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001
(or email: pysubmissions@rba.gov.au)

Dear Sir/Madam,

Re: Consultation on Variation of the Financial Stability Standard for Securities Settlement Facilities: Disclosure of Equities Securities Lending

We refer to the Reserve Bank of Australia's (RBA) consultation paper on Variation of the Financial Stability Standard for Securities Settlement Facilities: Disclosure of Equities Securities Lending.

As a general comment, we support the RBA's proposal to vary the Financial Stability Standard ("Standard") and associated guidance. The proposed changes should retain a principles-based approach so measures underpinning the Standard allow for flexibility and recognition that any precise details of system changes are best worked out in consultation with relevant industry participants.

We strongly believe any reporting requirements and the frequency of reporting from market participants (daily, weekly, monthly) should be borne by securities lenders as they are effectively the source of truth. Other market participants, such as borrowers of securities, should not be burdened with the reporting overhead.

We believe requiring both securities lenders and borrowers to report data or tag CHES messages that involve a securities lending transaction would be contrary to the intended spirit of the Standard, which is to promote transparency over short selling and securities lending.

Our responses to questions posed in the consultation paper are set out below.

1. The wording of the proposed variation and guidance note

In principle, we support the RBA's proposed wording for Measure 3 Understanding Risks and associated guidance. The RBA acknowledges that a high portion of securities lending transactions are linked to the need to cover short sold positions. However, we believe that

if appropriate short selling reporting was implemented, then the need for securities lending reporting in general would be abated.

2. Alternative arrangements for disclosures

We believe any proposed alternative arrangements could include:

a. Short selling reporting thresholds

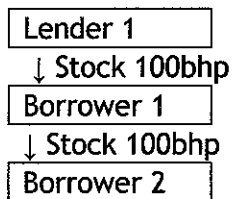
An alternative would be more appropriate short selling reporting i.e. investors making disclosure on the short positions subject to a threshold (similar to disclosure requirements for substantial shareholders). This would enable market participants and the regulators to track the extent of short selling and stock lending.

b. Practical & meaningful disclosure

Any securities lending reporting needs to be practical and meaningful. Due to the nature of securities lending and the 'chain of loans' (i.e. Borrower 1 borrows stock from Lender 1, only to lend the stock out to Borrower 2 and so on) it is essential that any reporting exclude this 'chain' impact if this information is to provide value to market participants.

If the RBA wants to improve the quality of analysis for short settlement that fails as a result of the 'chain' impact, it should require the Net Securities Lending position for each lender (absolute value of loans) as well as the Total Securities Lending positions for each lender (total number of loans).

For example:



Net Securities Lending position (absolute value of loans):

Lender 1: **100BHP**

Borrower 1: **Zero** (this is because Borrower 1 has lent to Borrower 2 i.e. 100BHP - 100BHP)

Borrower 2: **Zero** (only a Borrower).

Total Securities Lending positions for each lender (total number of loans):

Lender 1: **100BHP**

As Borrower 1 now becomes a "Lender 2": **100BHP**

Borrower 2: **Zero** (only a Borrower)

In either instance the reporting should be from securities lenders only.

3. The potential scale and costs of any systems and operational changes required to implement a disclosure regime on the basis described in the consultation paper

The potential scale and cost of the proposed system and operational changes should be confirmed with the relevant securities lending industry participants. As referred above, we strongly believe any reporting requirements and the frequency of reporting from market participants (daily, weekly, monthly) should be borne by securities lenders.

4. The timeframe outlined by the RBA for implementation of the new disclosure arrangements.

See comments in 3 above.

Should you have any further questions please contact me on (02) 8253 2559 or Prudence Weaver on (02) 8253 3257.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Allan Howden', with a long horizontal flourish extending to the right.

Allan Howden
Head of Group Regulatory Affairs
Westpac Banking Corporation