

If it ain't broke . . .

The Securities Institute has made an important submission to a Senate inquiry into the regulation of Australia's stock exchanges. The Senate economics references committee is investigating the framework for supervision of stock exchanges.

The inquiry is particularly concerned with:

- the advantages and disadvantages of the existing supervisory framework;
- the implications of demutualisation and listing of an exchange and any proposed alliance between Australian exchanges and other exchanges;
- other frameworks or structures for market supervision including those operating overseas; and
- whether trade practices law is deficient in ensuring a competitive stock exchange market.

The Institute's submission asserts that the current arrangements in Australia, which have promoted a strong stock exchange with robust liquidity and a good supervisory reputation, have placed Australia in a strong position to face the difficulties of operating in a globalised securities marketplace.

Proposals to arrange the supervisory function through a subsidiary of the Australian Stock Exchange (ASX) with separate governance are, in the Institute's view, a useful and pragmatic response to the issue of supervisory independence. Any proposal to use another regulator or a separate entity would not deliver benefits

sufficient to outweigh the ASX approach. It is important for the ASX to continue to perform a role in the international securities market and protect Australia's level of liquidity. The flexibility that demutualisation provides should assist in achieving this goal.

It will also be important for the ASX to participate in alliances that will encourage continued investment in Australian companies. A flexible approach is needed to regulatory issues that may arise so that the exchange can enter alliances or mergers as necessary. In this regard, any legislative or regulatory barriers to alliances and mergers should be kept to a minimum.

The Institute is strongly of the view that trade practices law is not deficient in ensuring a competitive stock exchange. A successful securities market relies on a consistently deep pool of liquidity to ensure the best possible execution price. Hence, in a small market like Australia, it would be detrimental to disperse liquidity over more than one market.

One of the less obvious aspects of the fragmenting of liquidity is the potential for Australian companies to seek the quotation of their shares in overseas markets where liquidity may be more consistent. This will inevitably result in the very largest Australian companies relocating substantial portions of their operations offshore. The top 20 Australian companies account for 55% of stock exchange turnover so any loss of these

companies to overseas exchanges would adversely affect the liquidity of our market.

A question often raised by market participants is whether the ASX, as a monopoly provider and one that generates a substantial return on equity, should have some form of regulatory cap placed on returns as is the case with utilities.

Rather than aggressive regulation through devices such as a price cap, the Institute supports the ASX remaining subject to Australian competition laws under the Trade Practices Act. The Australian Competition and Consumer Commission (ACCC) plays the regulatory role here and should continue to do so.

However, the issue of pricing of trades and information provided by the ASX continues to cause some concern among market participants. This concern is likely to diminish with increasing global competition for services provided by the exchange. Competition and the role of the ACCC should ensure that market participants pay fair prices for products and services. ASX services are clearly exposed to a global environment (eg, through electronic crossing markets) and this should ensure competitive pricing.

The Institute has identified globalisation of financial markets and exchanges as a key issue and will monitor developments in this area carefully. **J**

Continued from page 39

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