



MEDIA RELEASE

Government Consultation Paper on OTC Derivatives Framework

19 April 2012

AFMA welcomes the Government consultation paper on *'Implementation of a framework for Australia's G20 over-the-counter derivatives commitments'*.

The development of a legislative framework to allow for mandated outcomes in the future is an expected necessary first step to provide certainty to industry to introduce new market practices. The framework provides an open competitive environment for market infrastructure while giving the regulators the tools to manage systemic risk. This framework recognises the need for a flexible regime that can cope with the rapid evolution that is occurring around the globe and enables market participants to adopt appropriate risk management and business decisions based on cost and liquidity.

Financial derivatives play an important role in our economy. The markets for these products are large and diverse, with rules and conventions governing trading activity that have developed over decades. Swaps and other derivatives are important financial tools used by asset managers, insurance companies, banks, and large commercial and industrial companies to manage risk. Regulation that is sympathetic to market forces and dynamics is important to ensuring that laws support the efficient functioning of the market and the usefulness of important financial tools.

While the regulation of financial markets in Australia has proved robust and effective during a period of crisis, and the Australian over-the-counter markets continued to perform effectively, it is important for the competitiveness and functioning of our markets that commitments entered into by G-20 countries, including Australia, to better monitor and manage systemic risk are put in place in a way that is harmonious and compatible with changes being made around the globe.

Part of the G-20 commitments was the undertaking to 'take action at the national and international level to raise standards together so that our national authorities implement global standards consistently in a way that ensures a level playing field and avoids fragmentation of markets, protectionism, and regulatory arbitrage'. The Council of Financial Regulators' advice to the Government that it does not consider restrictions should be placed on local participants in accessing domestic or offshore financial infrastructure at this time, subject to appropriate safeguards being in place, allows Australia to meet this commitment. It is desirable that other countries follow Australia's lead in this respect.

AFMA welcomes the Government's acceptance of the Council of Financial Regulators' recommendation for a legislative framework which allows regulators to take a dynamic and flexible approach as the Australian market evolves. While the power to introduce mandated outcomes is an important safeguard supporting financial stability objectives, and to meet Australia's international obligations, the Council's recognition of market driven solutions as the primary means to meet objectives is particularly positive.

AFMA looks forward to working with the Council and providing its views on the next steps towards implementation.

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Notes for Editors:

The Australian Financial Markets Association (AFMA) is the leading industry association promoting efficiency, integrity and professionalism in Australia's financial markets and provides leadership in advancing the interests of all market participants. These markets are an integral feature of the economy and perform the vital function of facilitating the efficient use of capital and management of risk. Market participants perform a range of important roles within these markets, including financial intermediation and market making.

AFMA represents over 130 members, including Australian and international banks, leading brokers, securities companies, state government treasury corporations, fund managers, traders in electricity and other specialised markets and industry service providers.