AFMA

ANNUAL REPORT 2021

Australian Financial Markets Association Ltd www.afma.com.au

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CHAIRMAN'S REPORT

AFMA had a highly successful 2020/21 financial year in supporting the businesses of participants in the Australian financial markets, strengthening its engagement with the Government and regulators and delivering significant and tangible benefits to its members.

Against the backdrop of supporting the economic recovery from the COVID-19 Pandemic, AFMA ensured that the disruption from the pandemic to members businesses was minimal, including through ensuring that the "essential service" designation applied appropriately to financial market participants to allow the financial markets to continue to operate efficiently during periods of lockdown. In addition, as financial markets and the priorities of AFMA members evolved, AFMA responded through the creation of new committees and forums. As a result, AFMA is structurally well-positioned to support members as the markets evolve.

Chief Executive Officer

The 2020/21 financial year was the last full year with David Lynch as AFMA's CEO. In an outstanding career spanning 25 years at AFMA and its predecessor organisations, David has presided over AFMA during a period of significant change in Australia's financial markets and navigated the Association and industry through a number of significant events, including as recently as the COVID-19 pandemic. On behalf of AFMA's Board, I extend thanks and congratulations to David for outstanding service to the Association.

AFMA's Board was pleased to confirm Brett Harper as the incoming CEO. Brett has had an exemplary career, including gaining experience working for a prudential regulator together with AFMA member firms. Pleasingly, Brett has served on AFMA's Professionalism Committee and brings a deep understanding of AFMA and the broader financial markets industry. As an established leader with an excellent resume, Brett is exceptionally well placed to continue to take AFMA forward.

Sustainable Economic Recovery

A particular focus of AFMA during the year was to promote appropriate settings to allow the financial markets to contribute optimally to Australia's sustainable economic recovery when the operational restrictions arising from the pandemic eased. Our efforts in this regard focussed on immediate reforms that could complement the Government's deregulation agenda and enhance the competitiveness of Australia as a place to conduct business, but also on ways the processes for policy setting and regulation could be improved. AFMA's firm view is that policy decisions are a matter for Government and the primary role of regulators is to ensure that the law is administered in a manner that reflects the Government's policy intent.

Our representations continued to highlight the fundamental regulatory differences in approach to retail customers in contrast to wholesale market participants, a key theme that runs through AFMA's advocacy positions with respect to financial

As an established leader with an excellent resume, Brett is exceptionally well placed to continue to take AFMA forward.

market regulation. The revised Statements of Expectations for ASIC to clearly require ASIC to have economic recovery as part of its mandate and the announcement of the Financial Regulator Assessment Authority are both reflective of AFMA's representations to Government.

Additionally, a number of initiatives offered by AFMA during the year to enhance attractiveness of Australia as a place to do business also resulted in positive enhancements to the policy and regulatory settings. AFMA was pleased to work closely with the working group looking into Australia as a Financial and Technology Centre, chaired by Andrew Low and commissioned by Senator Andrew Bragg. The Working Group made a number of useful recommendations to make doing business easier in the areas of licensing, taxation and facilitating personnel moving to Australia, designed to promote certainty, remove regulatory duplication and minimise frictions inhibiting the flow of capital into Australia. Many of the recommendations were committed to by the Government during the year, highlighting the effectiveness of AFMA's messaging and the concurrence between AFMA's policy positions and the Government's current priorities.

A core strategic focus for AFMA has been to strengthen its relationships with Government, regulators and similarly-aligned industry bodies to further support its advocacy work. Recent meetings between the AFMA Board and the APRA Chair, ASIC Chair and Business Council of Australia CEO highlight such engagement, which AFMA will continue to build upon.

Aligning AFMA's Resources to Member Priorities

Innovation is a necessity in the financial markets and the 2020/21 financial year highlighted a number of emerging priorities for members that caused AFMA to ensure that its committee and working group structures were aligned to such priorities.

During the year, AFMA established both the Sustainable Finance Forum and the ESG Risk Forum to address emerging ESG issues from both an issuance/investment and a risk perspective. These Forums now have significant representation across a range of AFMA member firms and leave AFMA well placed to ensure that the expectations of regulators, investors and other stakeholders can be addressed in an Australian context. To support the work of these Forums, AFMA developed the "Sustainable Finance Stack" to promote a consistent understanding of sustainable finance practices across the Australian market.

Data, particularly data governance, has emerged as a recent focus of members and AFMA created a Data Management Committee to complement the work of the existing Information Security Committee. The primary strategic objective of the Data Management Committee has been to minimise fragmentation of regulatory standards to allow members to comply with consistent requirements across various regulators.

To support the growing policy complexity and specialised attention that goes into supporting AFMA's energy members, the Energy Governance Committee was established. This provides additional structure to AFMA's engagement with State and Federal Governments and regulators on policy issues affecting energy financial markets. A key focus of the Committee has been the formulation of a strategy to engage with stakeholders to provide a more widespread understanding of the key role of energy financial markets as well as the impacts to markets that may arise from policy changes.

Given the growing commercial impact of Foreign Investment Review Board (FIRB) on member services, AFMA established a Working Group to lead industry advocacy to ensure that swiftly-made changes at the height of the COVID-19 pandemic did not have unintended consequences and applied evenly across a range of market participants. The results of this engagement were successful, demonstrating the need to be vigilant across the many areas of Government intervention in commercial activity that affects not only members directly but also their clients as well.

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Policy

AFMA's representations on behalf of members cover a broad range of policy areas including:

- Exchange traded and OTC markets;
- Equity and debt capital markets;
- Bank prudential regulation;
- Taxation; and
- Anti-money laundering legislation and regulation.

Over the course of the year, AFMA made 60 policy submissions reflecting the breadth of AFMA's activities both in Australia and globally.

The very busy regulatory change agenda currently being tackled by AFMA member firms has highlighted the importance of AFMA's management of policy issues and necessitated that AFMA's staff lead the thinking in terms of formulating industry responses. Over the course of the year, AFMA made 60 policy submissions reflecting the breadth of AFMA's activities both in Australia and globally. The submissions pertain to a wide range of policy issues and address improvements to existing law, the design of new legislation and the regulation of legislative requirements, including regulator guidance. Reflecting AFMA's experience across the varying Australian financial markets and understanding of the steps of the transaction life-cycle, a considerable focus of AFMA's submissions is to standardise regulatory requirements where possible. This is particularly important given the increasing instances of multiple regulators imposing requirements with respect to similar activities. More detail of AFMA's policy work is included in this Report and in the Key Achievements document previously circulated to members.

Government Sector Engagement

Noting the increased focus of engaging with governments and regulators, AFMA's Board and staff prosecuted a busy schedule of engagement. AFMA formalised its liaison process with Treasury and ASIC to complement existing processes with APRA, AUSTRAC and the ATO. Such engagement is vital to ensure consistent understanding between industry and regulators regarding regulatory expectations and interpretations of legislative requirements, as well as to communicate key messages from members. At a time of significant regulatory change, articulating to regulators the effect of the collective regulatory burden allows for expectations regarding implementation timeframes to be managed and resources allocated appropriately. The engagement also provides regulators with an opportunity to deepen their understanding of issues facing market participants, thereby improving the base on which regulatory decisions are made.

Regulator liaison was supplemented by constructive dialogue with senior officials. During the year, AFMA's Board hosted meetings with the Minister for Superannuation, Financial Services and the Digital Economy, Senator Jane Hume, the Shadow Treasurer, Jim Chalmers, Senator Andrew Bragg as well as APRA's Chair Wayne Byers and the incoming ASIC Chair Joe Longo, accompanied by senior representatives from the Commission. AFMA staff also provided testimony to House and Senate Committees on topics such as the development of the Australian corporate bond market and the competitiveness of Australia as a financial centre.

Professionalism

Building on the foundation established in previous years, AFMA's professionalism program made solid progress during the year in its goal of providing member firms with practical tools to support professionalism in their own organisations. In November 2020, the Professionalism Committee approved the release of a Conduct Training Practice Guide to assist firms to design and implement effective conduct training programs. Additionally, the Professionalism Committee finalised the Consequence Management Standard, which seek to promote consistency across the industry in terms of addressing breaches of internal policies by staff, including actions that would be considered contrary to the AFMA Code of Conduct. The finalisation of this standard is a key step in supporting the review of the AFMA Code of Conduct, a current priority of the Committee.

Education

2020/21 was a landmark year for AFMA's Education program with the agreement with Macquarie University Business School for Macquarie to deliver the education courses underpinning AFMA's Accreditation program, encompassing the "Financial Markets Certificate." The agreement with Macquarie University ensures that students seeking AFMA accreditation and others seeking industry training in the Australian financial markets have access to leading practitioners and learning systems. By collaborating with an organisation of the scale of Macquarie University, AFMA's accreditation program is now sufficiently flexible to adapt to innovations in the financial markets and any regulatory requirements that may be imposed on participants.

On behalf of the Board, I would like to pay tribute to the staff that have worked within AFMA's education function and were the architects of an outstanding education offering. The curriculum developed by these staff continues to underpin the courses being taught by Macquarie University for the Financial Markets Certificate.

Membership

AFMA had 129 members as at 30 June 2021 and continues to receive enquiries from firms that either are or are planning to participate in Australia's financial markets. Our members include representatives from each segment of the financial markets sector, thereby ensuring that our policy positions, market conventions and standards are representative of the market as a whole.

AFMA is fortunate to have a large number of highly supportive Partner Members that provide professional services to AFMA's members. These firms give considerable insight into trends and priorities they are seeing across their client base. In addition, our Partner Members bring technical skills to assist with the formulation of AFMA's policy positions.

During the period where AFMA staff had returned to the office environment and physical meetings were possible, we prioritised meeting as many members as feasible and heard first-hand the implications of current conditions, particularly the COVID-19 Pandemic, on our members' businesses. This engagement is of vital assistance in ensuring AFMA appropriately directs resources in areas of most relevance for our members and are able to escalate industry issues as appropriate. We look forward to further meetings with members when operational circumstances permit.

International

AFMA's relationships with counterpart global organisations and other international bodies are crucial to ensuring that regulatory fragmentation is reduced and that we maintain awareness of global developments that may have implications for Australia, either in the form of potential new regulation or where the overseas regulation has extra-territorial effect.

AFMA's CEO, David Lynch, was chair of the International Council of Securities Associations (ICSA) for a two-year period, expiring in June 2021. During this time, ICSA held a number of discussions with IOSCO and the Financial Stability Board on topics such as market fragmentation, the cost of data and operational resilience, particularly in light of the COVID-19 Pandemic.

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In addition, AFMA continues to benefit from long and established relationships with bodies such as the FICC Markets Standards Board, ICMA and ISDA in relation to standardised documentation, debt market practices and market standards, all of which having increasing relevance in the Australian context.

Financial Position

AFMA continues to be in a strong financial position, thanks largely to the support of its members. We operate within a tight financial control framework and continuously look for initiatives to enhance our value proposition for members. AFMA's strong financial position allowed AFMA to return to the Federal Government all amounts received as part of the Cash Boost initiative, ensuring that AFMA did not receive any COVID-19 related Government support.

My appreciation to all of those member-firm employees that volunteer to contribute through serving on AFMA's committees or otherwise contribute to AFMA's activities.

Financial Markets Foundation for Children

AFMA is proud to provide accounting and operational support to the Financial Markets Foundation for Children on a pro-bono basis. The Foundation's core fundraising activities have been significantly impacted by the COVID-19 Pandemic. Notwithstanding, the Foundation has provided financial assistance to paediatric medical research projects, as well as funding chairs at leading Universities and supporting specific brain cancer research.

In Appreciation

I thank my fellow Directors on AFMA's Board for their commitment to the Association and the broader industry. Given the demands on each Director's time, I am very grateful for the effort taken by each Director to ensure that the Association is operating optimally and in accordance with its strategic mandate. I would like to particularly call out the commitment of Directors to ensuring a smooth transition of AFMA's CEO.

My appreciation to all of those member-firm employees that volunteer to contribute through serving on AFMA's committees or otherwise contribute to AFMA's activities. The Association would be unable to function without significant member input and your contribution is specifically acknowledged by AFMA's Board.

Finally, thank you to AFMA's staff, who continue to represent the Association and the broader industry in a diligent and dedicated manner.

ROBERT BEDWELL
Chair

AFMA

AFMA at a glance:

- ✓ *More than 125 Members*
- ✓ *46 Committees and Working Groups*
- ✓ *Total Committee Meetings for the year in excess of 150*
- ✓ *More than 950 Individual Committee/ Working Group Participants*
- ✓ *2000 plus Accredited Individuals*
- ✓ *60 Submissions*

POLICY INITIATIVES

Economic Recovery from COVID-19

The 2020/21 financial year saw the beginning of the recovery from the initial impacts of the COVID-19 pandemic, with businesses being able to partly return to offices for much of the year.

Australia's financial markets supported economic activity during the recovery phase of the pandemic by facilitating the financing of governments and businesses, enabling investors to manage their financial risks. Their role was broadly accepted as essential to the recovery effort. Many firms quickly moved to position themselves for the changed conditions through capital raisings. AFMA worked to support policies and practices that did not add additional operational, financial and risk burdens to firms during a difficult operating period, and that supported the required recapitalisation of the economy.

Trade Cap and Minimum Trade Size

In March 2020 ASIC responded to system limitations that emerged during record trading by imposing a trading cap on the top nine brokers. ASIC then publicly considered a major market restructure through the introduction of a minimum trade size to be implemented during the COVID-19 period. AFMA worked to facilitate dialogues and made the case for more proportionate measures that would be less disruptive to markets and already strained member resources.

The financial year began with welcome confirmation that ASIC, in response to AFMA's engagement, would remove the trade cap, to be replaced with a broker capacity attestation scheme. AFMA's work also resulted in the discontinuance of considerations of implementing a minimum trade size. Such a change would have adversely impacted retail investors and the implementation of such a major market microstructure change in the middle of a pandemic would have involved significant unwarranted additional operational risk for firms.

Equity Capital Raising

In response to the urgent capital needs of firms as the COVID-19 restrictions started to affect the economy, AFMA worked with the ASX and ASIC to ensure that special rules allowing supersize placements designed to expedite the flow of capital to firms had appropriate disclosure rules to accompany them. This ensured transparent disclosure to the market about capital raising decisions (particularly with regard to allocations) and for the raisings to be done in a way that protected market integrity.

AFMA also sought an extension of the temporary relief to support the Australian capital markets and ASX listed entities that were still grappling with the economic consequences of COVID-19. In response, ASX extended its COVID-19 emergency measures to November 30, 2020 to allow listed companies to gain easier access to capital.

National COVID Coordination Commission

To assist with the economic recovery from COVID-19 as a forward-looking exercise, AFMA sought improvements to the policy making and regulatory process, as this is often the source of red tape problems encountered by members. Our engagement with the National COVID Coordination Commission and the

AFMA worked to support policies and practices that did not add additional operational, financial and risk burdens to firms during a difficult operating period, and that supported the required recapitalisation of the economy.

Government's deregulation team were significant in this regard. Associated reforms to the governance of regulators announced by the Government in 2021, including an expectation for regulators to support Australia's economic recovery from the pandemic, go some way towards meeting AFMA's objective for a better regulatory process. This will generate practical benefits for member firms; for example, by stymieing flawed regulatory proposals and giving more prominent recognition to market development needs.

Apart from the targeted reduction of red-tape, AFMA also sought a range of policy measures to enhance Australia's competitiveness as a Financial Centre, improve productivity and establish a long-term strategy for the further development of the wholesale banking and financial markets. A number of Government announcements during the year are consistent with the approach taken by AFMA in its engagement with the NCCC and there are opportunities in the future for further implementation of AFMA's recommendations.

Essential Services Designation

As lockdowns loomed in NSW and Victoria again in 2021 AFMA moved swiftly to ensure financial services were included in the Authorised Worker category by the respective State Governments. This ensured firms could continue to have essential workers access work-sites where access to systems and processes was not practical remotely. AFMA also facilitated industry dialogue to assist firms ensure their arrangements were compliant.

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Financial System Regulation

Financial Regulator Assessment Authority

The Government has now established the Financial Regulator Assessment Authority (FRAA), giving effect to recommendations of the Financial Services Royal Commission to set up a new authority to assess the effectiveness and capability of each of APRA and ASIC.

AFMA has long advocated for the establishment of such a body, with our views on this matter being first put to the 2014 Financial System Inquiry and adopted in its recommendations. AFMA also made recommendations to strengthen the role of the FRAA, which have largely been incorporated in the legislation.

The establishment of the FRAA is a very welcome development in promoting good governance accountability, and transparency in relation to financial regulator activities through a dedicated objective third-party assessment process.

APRA Remuneration Standard

AFMA remained deeply engaged with APRA on the creation of its new remuneration standard across the full range of issues from key design questions to operational details. Our work sought to minimise overlap and duplication for firms, particularly with the BEAR/FAR scheme, reduce the impacts of the scheme on the competitiveness of firms in local and regional markets in attracting talent, and ensure the scheme settings were optimised.

The engagement program resulted in substantial improvements in the scheme. Reflecting their home jurisdiction obligations, Foreign ADIs were granted a general exclusion from the scheme with some exceptions and limitations. The threshold for inclusion as a Significant Financial Institution was increased from $15 billion to $20 billion, the 50 per cent cap on financial measures contribution to performance criteria was removed, and deferral periods were reduced across the board for CEOs, Senior Managers and Highly Paid Material Risk Takers.

AFMA will continue to work with APRA to support a smooth implementation of the scheme notably for firms with total asset levels that are close to the threshold.

Financial Accountability Regime

AFMA has been an active participant in the design of the Financial Accountability Regime (FAR) scheme at all points, having previously been deeply involved in its predecessor, the Bank Executive Accountability Regime (BEAR).

AFMA successfully engaged with Treasury in relation to FAR design to highlight the risks to the economy a sector-wide application would entail. This resulted in a scale back of the scope to only APRA regulated entities, with further consideration being given as to how it might apply realistically to financial services licensees and avoiding duplicated conduct regulation. The current approach represents a substantial outcome for the industry that has, at present, avoided a very large increase in red-tape and unnecessary costs for potentially thousands of firms.

AFMA representations contributed to the removal of civil penalty provisions for individuals, and we are continuing our efforts to streamline the scheme, increase compatibility with the APRA Remuneration Standard and optimise the scheme settings.

Foreign Financial Services Provider Licensing

AFMA's sustained work was central to having a serious problem facing many members addressed. The cross-border provision of financial services is an integral part of an advanced economy and the defining feature of an international financial centre. Australia's competitiveness suffered a setback in this regard in March 2020, when ASIC abolished an efficient licensing exemption for foreign financial service providers (FFSPs) who service wholesale clients from outside of Australia and replaced it with a new, high-cost licensing regime for FFSPs. AFMA strenuously objected to the harmful economic impacts of ASIC's action, including on members based in Australia who transact in the global markets.

AFMA raised the problem with the Government through different avenues and was instrumental in convincing it to take policy action to redress the problem caused by ASIC. The Government announced in the 2021 Budget that it would consult on options to restore the previous regulatory relief for FFSPs who are licensed and regulated in jurisdictions with comparable financial service rules and obligations or have limited connection to Australia. The options to be explored by the Government should address member concerns and counter the risk that Australia may be perceived to be a place that it is not easy to transact business.

AFMA requested that Treasury and ASIC work together to allow for a moratorium on the FFSP licensing process. ASIC subsequently announced that it would extend the transitional relief for FFSPs from the requirement to hold an ASFL until end-March 2023 pending the outcome of the Government's consultation on legislative reform solutions.

Your Future Your Super

During the financial year, the Government released the long-delayed consultation on the regulations to accompany the Your Future Your Super reforms, and in particular those related to super fund Portfolio Holding Disclosure. AFMA engaged with Government given widespread industry concerns around potentially unfair exposures for the industry and investment risks for investors and market makers that might arise from the proposals.

AFMA secured significant improvements, such as the removal of counterparty names and maturity dates from the release. We have recommended further refinements and careful monitoring of the effects of the regime to ensure that investors are not disadvantaged by the remaining changes.

Changes to Foreign Investment Review Framework

Changes to the foreign investment framework to address national security concerns were finalised in December 2020 and commenced on 1 January 2021. Of key concern to member firms were potential changes to the moneylending exemption (and related definition of national security business), that would require firms to seek approval from the Foreign Investment Review Board (FIRB) to obtain an interest in a national security business or national security land under a moneylending agreement (through initial lending and refinancing arrangements).

In late 2020, AFMA made submissions to several Treasury consultations and raised the issues at ministerial level to highlight practical implications of the changes, noting the importance of foreign investment to Australia's recovery from the economic impact of COVID-19 and international competitiveness going forward. The finalised regulations reflected AFMA's submissions and ensured that firms' lending arrangements would not require substantial change.

Breach Reporting Regulations

Over the financial year, proposed changes to the breach reporting legislative provisions and regulations resulted in key developments for AFMA members prior to their commencement in October 2021. AFMA engaged closely with Treasury and ASIC in support of efficient regulatory and business outcomes. Following a number of AFMA representations, the scope of the investigations requirements was brought back into line with the original policy intention of the Hayne Royal Commission recommendations around the need for better reporting of retail advice and not institutional market breaches. In addition, the government introduced key amendments to what is covered by 'core obligations' under breach reporting to exclude technical breaches under administrative rules, thereby relieving an inefficient additional regulatory burden.

Financial Advice Reforms

Building on our work with the Government to reform the regulatory structures around financial advice in recent years, over the financial year AFMA has had a productive dialogue with Government on the future shape of financial advice. Our focus has been to ensure that the many types of financial advice are recognised both in the training requirements and the regulatory requirements. Many AFMA members offer simple FX forward services to Small and Medium Enterprises (SMEs), which are currently caught by the legislation as financial advice and treated as if it were financial planning to individuals. AFMA's position has been that, like the EU and UK, such services should be carved out of the personal advice regime.

AFMA remains concerned that the ASIC Cost recovery scheme is inefficient, distortionary, damaging to markets and a source of moral hazard.

Retail Margin Lending

During the 2021 financial year, AFMA responded to APRA with industry concerns on proposed retail margin lending changes that would require a 40% credit conversion factor (CCF) to the undrawn portion of client's notional credit limit. This would have dramatically and unnecessarily increased the amount of capital required to provide investors with these type of services.

AFMA successfully argued that the CCF should only apply to the maximum accessible unutilised portion of the margin lending facility. This more proportionate arrangement avoided large unnecessary increases in costs for investors that use these products and potentially significant damage to these businesses for members.

Equity & Exchange Markets

CHESS Replacement

AFMA continued to work to support a successful deployment of the CHESS replacement project during the year. Most notably, AFMA responded to ASX proposals around significant late changes to its messaging protocols. Our representations about the potential increase to operational risks to clearing firms resulted in additional reports and adjustments to the final design that are intended to address these risks, and reduced member concerns and risks.

ASX Outage Response

AFMA played a constructive role following the ASX outage in November 2020 that ensured that ASIC understood the practical realities and the proper role of brokers in responding to investor instructions. This constructive dialogue better informed ASIC's position. AFMA will continue to work with our members including brokers, exchanges and regulators to remove any obstacles to competition in the event of an outage.

ASIC Cost Recovery

AFMA remains concerned that the ASIC Cost recovery scheme is inefficient, distortionary, damaging to markets and a source of moral hazard.

During the financial year, AFMA raised concerns with ASIC and Treasury around the high variability and unpredictability of charges imposed on investors and members. Actual charges for investors can be announced up to 21 months after they have been incurred and they can then vary markedly from initial estimates.

We engaged with Treasury for a review of the scheme with a particular aim to improve the predictability and administration of the charges for investors and market intermediaries. The Government has since announced a review with a focus on advice costs through which we will continue to advocate for substantial reform to the scheme.

Technology Resilience Requirements

During the financial year, ASX consulted extensively with AFMA and others on proposals to reduce the outage turnaround times for participants. AFMA submitted that a more globally consistent approach was appropriate given the international nature of many participants and their systems. The result was a combination of minimum requirements and preferred targets that are compatible with international standards, while improving resilience where possible.

Product Design and Distribution Obligations

The Product Design and Distribution Obligations originally arose when the Government adopted an AFMA standard into legislation and regulation. The adaption from flexible voluntary standards into a rigid regulatory regime was complex and despite ASIC releasing a Regulation Guide in December 2020, areas of uncertainty continued to emerge as firms worked through the details of implementing the requirements in their internal systems. AFMA worked to alert ASIC to the remaining issues, and in response ASIC addressed or began to address many of those issues in advance of the commencement date for the requirements.

Taxation

Justified Trust Reviews

During the year, AFMA continued to play a key role for members by facilitating engagement with their peers and also the ATO with respect to the Justified Trust reviews. Members valued the forum provided by AFMA where members could share best practice and collectively reduce the compliance burden.

In response to requests from AFMA, the ATO issued a letter in April 2021 setting out “Key Observations” from the Justified Trust process. Pleasingly, this letter confirmed that the ATO had no “widespread material concerns that would usually result in taxpayers receiving a low assurance rating.” The letter then set out five areas where members may have not been able to attain high assurance, together with a pathway/examples that would result in high assurance. This allows members to focus their efforts and to determine, based on their own risk appetite and governance framework, whether there is sufficient justification to expend resources to obtain high assurance.

Financial Centre Competitiveness

During the year, the Government announced the abolition of the Offshore Banking Unit (OBU) regime in light of the review by the OECD Forum on Harmful Tax Practices and the associated threat by the EU to treat Australia as a non-cooperative tax jurisdiction, thereby preventing EU institutional investment into Australian securitisation vehicles. The legislation to give effect to the repeal ultimately passed both Houses of Parliament in August 2021.

Through our engagement with Government, AFMA procured a two year transition period (the longest permissible under the OECD protocols) and ensure that the OBU roll-off is aligned to the OBU’s income year, which is important from a compliance perspective.

Importantly, as committed to by the Government in the 2021/22 Federal Budget, there is ongoing consultation about potential replacement regimes. AFMA has continued to engage with Government to formulate a tax regime for mobile financial centre business that is fit for purpose and internationally competitive.

AFMA supports the Government's renewed focus on enhancing Australia's competitiveness as a regional and global financial centre. During the year, AFMA was pleased to provide considerable support to the Committee chaired by Andrew Low into Australia as a Financial and Technology Centre. This Committee produced a report with a series of recommendations that would enhance Australia as a place from which to conduct mobile financial centre business. Many of these recommendations were committed to by the Government in the 2021/22 Federal Budget.

AFMA was pleased to provide considerable support to the Committee chaired by Andrew Low into Australia as a Financial and Technology Centre.

Interest Withholding Tax Reform

AFMA has continued to impress upon Government how internationally uncompetitive Australia’s interest withholding tax regime is, particularly as it applies to financial institution funding. During the year, AFMA provided testimony to the Senate Committee on Fintech/Regtech expressing our views and noting that, given historically low interest rates, the expanding network of Double Tax Agreements with a relevant exemption and the domestic exemption under Section 128F, there was a current opportunity to explore fundamental withholding tax reform.

POLICY INITIATIVES

Pleasingly, the Second Interim Report of the Committee recommended (on a bi-partisan) basis that the Government look to abolish interest withholding tax in line with the recommendation from the Johnson Report.

Corporate Bond Market Inquiry

In November 2020, AFMA was pleased to provide testimony to the House Committee on Tax and Revenue Inquiry into the development of the Australian Corporate Bond Market. The inquiry provides a valuable opportunity to advocate for the development of a deeper and more liquid corporate bond market in Australia. Our testimony highlighted the tax inequality for holders between equity and debt and the recommendation of the Henry Tax Review to give a tax discount on investors' interest earnings.

In response to member needs and increasing international focus on sustainable finance, AFMA commenced a dedicated policy work program to address key industry issues facing the Australian financial markets.

Anti-Money Laundering

Phase 1.5 Act and Rules

In relation to AML/CTF, a particular focus of AFMA during the year was consulting with the Department of Home Affairs and AUSTRAC in relation to the "Phase 1.5 Bill", which was ultimately passed by Parliament in December 2020 and commenced operation in June 2021. There were a number of reforms contained in the Bill of benefit to AFMA members, particularly enhancements in the ability to rely on other parties for undertaking KYC and the ability to share information with related parties offshore.

The Bill contained some changes with respect to correspondent banking and in relation to opening accounts prior to completing customer identification, with AFMA leading engagement with AUSTRAC on a compliance approach that will provide sufficient time to implement the new requirements without risking enforcement action.

IFTI

During the year, AFMA identified concerns from members regarding the approach to lodging IFTI reports, particularly in light of AUSTRAC removing previously issued guidance and advising AFMA that the guidance could no longer be relied upon. This resulted in differing approaches across the reporting entity population and significant legal costs being incurred, which did not necessarily result in consistent views.

AFMA initiated a number of workshops with AUSTRAC presenting various scenarios and seeking guidance as to whether a reporting obligation exists. As part of this process, AFMA has continued to impress upon AUSTRAC the diverging views in this area and the need for reporting entities to be able to amend systems, where necessary, to reflect the updated guidance without the risk of enforcement action.

AFMA Sustainable Finance Initiative

In November 2020, in response to member needs and increasing international focus on sustainable finance, AFMA commenced a dedicated policy work program to address key industry issues facing the Australian financial markets. AFMA has since established two member committees:

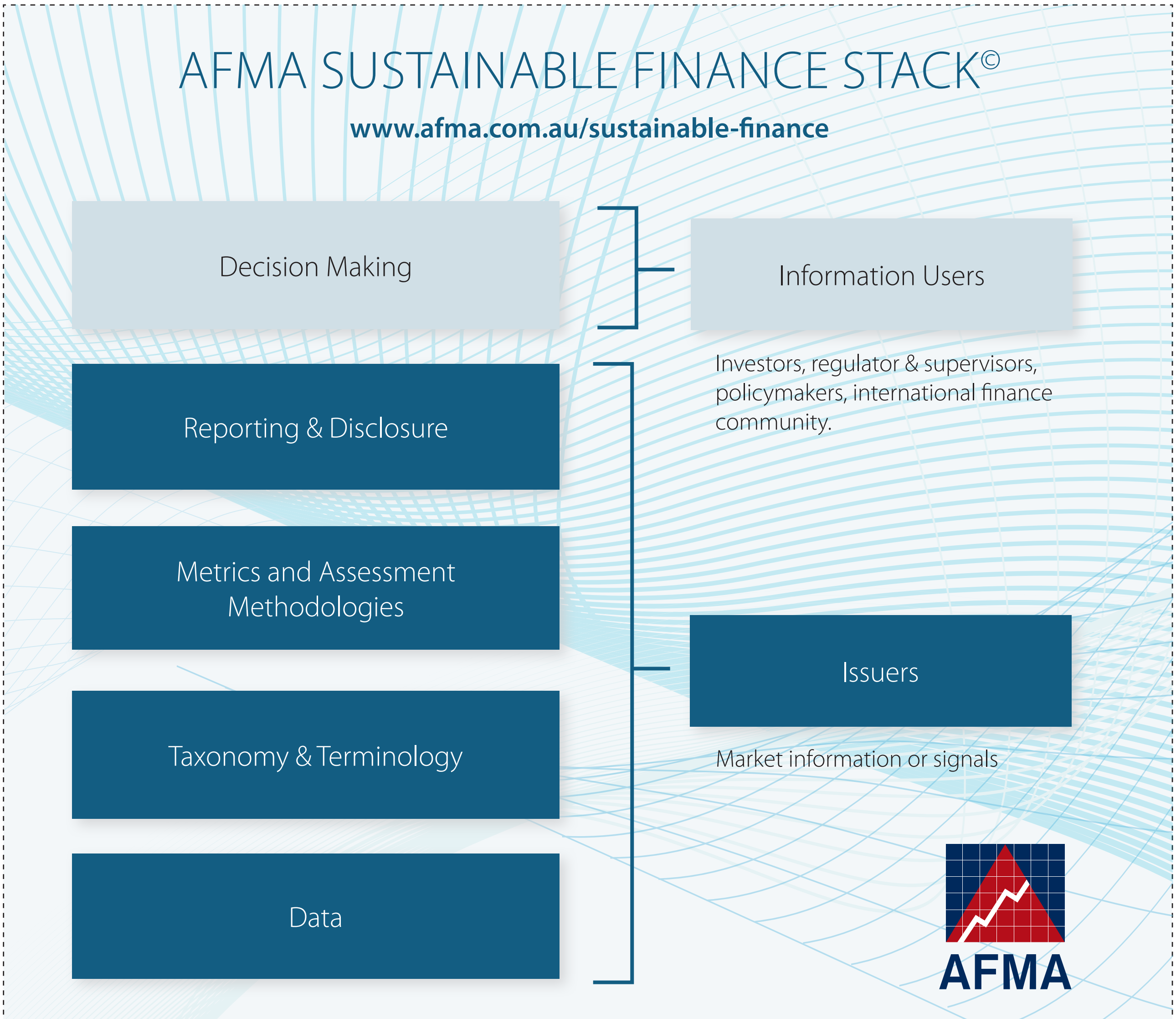
- **AFMA Sustainable Finance Committee**

  The general focus for this committee is to bring consistency to sustainable finance market practices in areas such as data, taxonomy, metrics and assessment methodologies and reporting and disclosure obligations. The committee works towards coordinating cross jurisdictional and international initiatives in sustainable finance and supports the rationalised development of related standards and guidance.

- **AFMA ESG Risk Committee**

  This committee focuses on the developments around (E)nvironmental, (S)ocial and (G)overnance factors in regulatory requirements. The group aims to address the challenges of integrating sustainability risk factors into firms' risk identification, assessment, mitigation, and management frameworks. It will also monitor impacts of sustainable finance regulation on market practices.

Since their inception, the two committees have continued to gain members' interest and participation. AFMA has collaborated with a range of industry bodies, regulators and international organisations to assist in the development of consistent approach to ESG and sustainable finance for our members and the Australian financial services industry overall.



AFMA Sustainable Finance Stack

As a key industry association with a mandate to promote efficiency, integrity and professionalism in Australia's financial markets, AFMA's approach to the domain of sustainable finance is based on streamlining and harmonising market practices. The absence of consistent understanding on sustainable finance across the market creates a range of risks for financial market participants. Importantly, the current uncertainty around notions of sustainable finance means that firms are facing heightened risk due to a lack of consensus around what constitutes ESG and how to measure compliance with ESG goals.

As our members face growing expectations to deliver on sustainability objectives, AFMA's role involves considering existing and upcoming market practices and supporting a coherent approach across the market for all participants. AFMA has devised an analytical market framework to conceptualise sustainable finance market practices, in the form of the AFMA Sustainable Finance Stack (The Stack).

Demarcating the aspects of sustainable finance provides clarity on how the various developments underway fit together. Classifying information resources, benchmarking initiatives, and expectations for business practices into five separate streams, the Stack helps facilitate the conversation on those elements and reduce the confusion created by multiple developments.

Data Management and Information Security

Information Security

AFMA is well placed as a key source for the Government on information security matters relevant to the financial markets and maintained an active dialogue with decision makers over the course of the year.

AFMA made successful submissions to the Government's Critical Infrastructure Bill consultation that resulted in the Government, recognising the maturity of the regulatory requirements for ADIs in information security, not imposing additional requirements and limiting the inclusion of ADIs in the program to those with over $50 billion in domestic assets.

AFMA's Information Security Committee assisted member firms to implement APRA's Information Security Standard CPS 234. Our partner members presented a series of updates on CP 234, including on how to prepare for the upcoming audits.

AFMA also began work on a regional BCP project that may provide the potential for offices in regional jurisdictions to provide back up and to allow workers caught by travel restrictions a more flexible regulatory environment.

AFMA is well placed as a key source for the Government on information security matters relevant to the financial markets and maintained an active dialogue with decision makers over the course of the year.

AFMA-EDM Council Data Management Capability Assessment

The AFMA Data Management Committee was established in 2020 to address the crucial role that data and the management of data play in Australia's wholesale financial markets and financial systems.

In March 2021, AFMA began collaboration with the Enterprise Data Management Council (EDM Council), a global association for elevating practices and developing standards on Data Management. The Data Management Capability Assessment Model (DCAM) framework is a prominent data management and governance framework, developed by the EDM Council. In response to members' interest, it was agreed that EDM Council would conduct a high-level benchmarking DCAM Assessment focused on the Australian financial services industry.

Over several months, AFMA and the EDM Council organised information sessions for our members prior to commencing the assessment. As of August 2021, we received participation from 17 AFMA members in the benchmarking assessment providing a significant representation from the Australian financial markets.

In addition to helping members benchmark their data management capabilities in relation to the industry, the assessment outcome is expected to inform the discussion about data management for all stakeholders. This includes government and regulators as data management practices involving governance, architecture, storage and several related considerations gain increasing supervisory focus both internationally and in Australia.

Data Availability, Transparency & Privacy

AFMA remained concerned in 2021 around the general increase by Government for data provided by industry participants. The Government released a draft Data Availability and Transparency Bill in 2020 that proposes to allow data custodians and accredited users to share the data they receive from the industry among themselves. AFMA made a submission stating concerns that this is a significant departure from existing privacy jurisprudence afforded under the Privacy Act. AFMA noted that while access to data can result in public benefits when applied to the right purposes and with appropriate controls, greater data use and data sharing should not compromise the complexities of data privacy and the accountability of government agencies.

Over-the-Counter (OTC) Markets

IBOR Transition

AFMA has continued to lead Australian work on preparing the transition for the end of IBOR rates. 2021 is the key year for the transition. AFMA worked closely with ISDA on its preparation of the Australian related parts of the ISDA Fallbacks Protocol Supplement and liaised with the local regulators on its local successful adoption.

With the Protocol in place in January 2021 the AFMA IBOR Market Responses Group deliberated on and recommended the use of ISDA methodology for floating rate note fallbacks which resulted in work commencing on the development of template fallback language referencing AONIA based rates. Work continued on addressing transition and operational issues to meet the end of 2021 deadlines.

AFMA maintained a collaborative relationship with the regulators to ensure both they and market participants are fully aware of expectations and challenges associated with the transition.

Repo Market Initiatives

AFMA continued its long-term repo market work in 2021 primarily through the Operations Committee. AFMA collaborated with the RBA and ASX as part of endeavours to resolve repo settlement frictions. These stemmed from the broader market's appetite to borrow the Australian Government Bonds targeted for purchase by the RBA. AFMA is promoting the use of the new systems created as a result of coordination between ASX and the Committee, then developed and released by ASX that aim to improve settlement efficiency and predictability. The Committee is also encouraging timelier processing of potential circles through revisions to the Operations Conventions.

In addition, AFMA coordinated swiftly with the RBA to implement a new framework for revisions to the margin it charges on repo loans. AFMA was able to reach agreement with RBA on a suitable framework for future releases to ensure even information distribution and thereby safer markets.

Zero and Negative Interest Rates

Given the uncertainty in the post-COVID-19 low interest rate environment, and the possibility that interest rates could go below zero, AFMA conducted analysis and modelled several scenarios across various markets. While current pricing formulae were able to cope with negative interest rates, amendments to the relevant conventions were required to cope with interest rates at zero itself and, with respect to credit and debt securities, those instruments with a zero-floor coupon. AFMA consulted with quantitative analysts and made recommendations to the Debt Capital Markets Committee and the Debt Securities Committee on amendments that needed to be made to their respective conventions. The recommendations were accepted unanimously by those committees.

AFMA maintained a collaborative relationship with the regulators to ensure both they and market participants are fully aware of expectations and challenges associated with IBOR transition.

AFMA's Ongoing Engagement with Government and Regulators

Government

AFMA maintains engagement with the relevant portfolio ministers and their offices and this has been of invaluable assistance in progressing key issues in 2021 including Foreign Financial Service Provider (FFSP), the replacement of the OBU regime, Financial Advice, Your Future Your Super requirements, ASIC Cost Recovery and a number of other acute and thematic issues.

ASIC

AFMA worked closely with ASIC across a wide range of issues during the financial year. Key engagement with senior leaders up to and including the ASIC Chair highlighted the importance of a constructive relationship between ASIC and AFMA and its members.

APRA

AFMA engages in a regular liaison meeting process to complement meetings with the APRA Chair and senior policy staff. Such engagement significantly assisted our members to ensure their concerns were well understood by APRA. This understanding resulted in better calibrated policies that assisted the industry remain regionally competitive.

POLICY INITIATIVES

Treasury

AFMA continued to have good lines of communication with Treasury through structured and informal channels and provided key input on policy matters including the Your Future Your Super reforms, the Compensation Scheme of Last Resort, the reform of Financial Advice, the Payments System Review, ASIC Cost Recovery, and other matters.

RBA

AFMA works closely with RBA, an AFMA affiliate member, through the RBA's role as an observer on a number of AFMA committees. From time-to-time AFMA and its committees deal directly with senior RBA officials on particular matters. In 2021 these interactions facilitated the prompt resolution of market issues associated with variation margin, as well as allowing more general exchange of information on matters including quantitative easing, foreign exchange, benchmark reform including AONIA, central bank digital currencies and the COVID-19 response.

AUSTRAC Quarterly Forum

AFMA, together with the ABA, chair quarterly meetings with AUSTRAC and the Department of Home Affairs to discuss relevant issues of AML/CTF legislation and regulation. A particular focus of the meetings during the year has been the enactment of the Phase 1.5 Bill and the formulation of Rules and Guidance to support the new requirements. The meetings also provided a useful forum to escalate any industry issues arising from the COVID-19 pandemic and associated operational changes caused by lockdowns.

ATO Liaison

AFMA has a structured biannual liaison meeting process with the ATO to raise relevant issues at an industry level. The ongoing Streamlined Assurance Reviews was a recurring topic of discussion, particularly as the first round of reviews come to their conclusion and the ATO commences planning for the next round, incorporating reviews of GST systems and processes. The meetings also provide an excellent opportunity for members to understand ATO expectations with respect to the implementation of new legislation, such as the anti-hybrid rules. ■

MARKET COMMITTEES

Market Governance Committee

AFMA's Market Governance Committee (MGC) oversees the development and maintenance of market protocols designed to promote efficiencies and facilitate orderly operations in wholesale OTC markets in Australia.

Over the course of a typical year, the market committees address a wide range of market-specific issues, leading to clarifications and amendments to Market Conventions and general practices. The 2021 financial year included key themes of supporting smooth IBOR transformation processes and fallback language and supporting markets as they processed the measures needed for COVID-19 recovery. MGC was assisted in progressing issues through its meeting with RBA Assistant Governor whose generous engagement with AFMA over the course of a challenging year was very much welcomed.

As part of its mandate, MGC regularly reviews the performance of the products traded in Australia's OTC financial markets. These include the cash market, short and long term debt securities markets and the associated repo market, together with a diverse range of derivative products, including interest rate derivatives, electricity, environmental and inflation products.

Following the formation of the Energy Governance Committee with responsibility for the Electricity and Environmental Products committees, the MGC now has responsibility for eight Market Committees, all of which are elected biennially. These Committees are the primary means through which AFMA undertakes its coordinating role in the industry's self-management of the OTC markets. Meeting regularly, the Committees develop market consensus on technical matters including transaction documentation, standards, trading conventions and market guidelines, all necessary elements for efficient OTC markets operation. Fundamental in its review of Australia's financial markets, MGC draws on individual committee surveys of market quality, as appropriate directing committees to meet challenges, garner efficiencies and consider issues on the horizon.

The MGC promotes the AFMA Code of Conduct as outlining acceptable standards of behaviour and advises the AFMA Board on material matters and issues arising in respect of market operations and conduct.

Market Committee Activities

COVID-19 Response

Australia's financial markets generally demonstrated strong resilience and with little disruption in the face of the challenges presented by the restrictions imposed to counter the spread of the COVID-19 strains. Similarly, AFMA's market committee activities continued without any material disruption, albeit meeting virtually as circumstances dictated.

Cash

The Cash Committee's focus is on market liquidity management and the intraday circulation of system cash amongst Exchange Settlement Account holders, these transactions underpinning the benchmark Interbank Overnight Cash Rate (AONIA). As a consequence of the high level of Exchange Settlement balances maintained by the RBA, the cash market is extremely liquid in terms of funding potential, however conversely illiquid in terms of trading volume as there is little necessity for banks to trade amongst themselves to square positions.

Debt Capital Markets

The Debt Capital Markets Committee dealt with numerous issues affecting primary market activities throughout the year including optionality in corporate debt securities, bond settlement failures and buy-ins, franking credits on hybrid securities, repo eligibility and fallback language for floating rate notes.

Following the release of the ISDA 2021 protocols in January, the National Working Group on LIBOR Transformation conducted a review of AFMA conventions and standards for day counts, the definition of Australian business days and fall-back definitions for cash products. The RBA had previously announced that floating rate notes would require fallback language to be accepted for repo eligibility. The RBA proposed that a fallback "waterfall" be included in documentation that recommends adopting the relevant near-risk free rate (plus spreads for credit, term, and liquidity) in the event the prevailing benchmark fails. AFMA is implementing the ISDA methodology for FRN fallback language.

The committee has been working on DCM Guidelines for some time, but their publication was delayed following the release of ASIC's REP 668 which concluded the regulator's review of Australia's fixed income market. Committee members had some concerns around some of ASIC's findings including JLM interest, the role of compliance in new transactions and inflated bids. These issues have been addressed and market participants have welcomed the release of the DCM Guidelines.

The committee also welcomed an initiative by Bloomberg to establish a central repository for issuance documentation. Bloomberg held discussions with buy-side market participants and consulted with sell-side market participants who are members of the DCM Committee. The initiative is limited to uploading pertinent new issue documentation at the point of pricing/settlement only.

Debt Securities

2020/21 was an extraordinary year for members of the Debt Securities Committee as Australian Federal and State Governments ramped up issuance and spending to provide fiscal stimulus to mitigate the repercussions of the economic downturn and to help the Australian economy recover from the effects of the COVID-19 pandemic. Despite increased issuance and economic uncertainty, S&P Global Ratings restored Australia's stable triple-A credit rating at the sovereign level after the Federal budget but downgraded both Victoria's and NSW's credit rating.

The ASX announced in July 2020 that tick increments for the 3 and 10 year bond futures contract would be reduced to facilitate trading and liquidity during the bond roll period, commencing with the September 2020 expiry. Members of the committee gave positive feedback noting that there had not been any adverse impact on liquidity nor trading ranges and that the transition had been orderly.

The ASX also launched the new 5 year bond futures contract in November. Committee members did not report any liquidity or activity issues and the contract started to gain traction after a quiet period over Christmas. The 5 year contract will take more time to pick up volumes in open interest and daily trading but that was to be expected. Market participants began streaming prices which was indicative of a growing market acceptance by most participants.

Members welcomed improvements in semi-government market communications around reverse enquiries. AFMA engaged with the committee, state borrowing authorities, ASIC and market participants regarding reverse inquiry. The outcome was that issuers began providing updates on outstanding volumes and tenors at the end of the day. Members agreed that the new practice provided more frequent information, increased transparency and had been beneficial to the market.

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Inflation Products

It has been another difficult year for members of the Inflation Products Committee. A global pick-up in inflation has so far failed to materialize into real inflation and has not had a positive impact on market conditions for inflation products.

The committee noted increasing interest in the market from clients which helped price tension but falling liquidity amid erratic inflation readings made it harder to manage volatility. Members also noted a bifurcation in the market where short end trading was reasonable but liquidity in the ultra-long end was poor.

AFMA invited the RBA to attend a meeting and discuss market conditions with members. The committee agreed that the package of RBA measures in response to the COVID-19 crisis was working well. The members agreed that market conditions had marginally improved but conditions are unlikely to return to more robust levels given the ongoing low inflation environment and official interest rates at zero.

Interest Rate Options

During calendar Q4 2020 the Committee introduced conventions for the settling the premium payable on a 'Wedge', i.e., a Cap/ Floor Straddle vs Forward Swaption Straddle. The first quarter of the 2021 calendar year saw a period of increased price volatility which temporarily impacted market quotation, transparency and overall liquidity across products.

Negotiable and Transferable Instruments (NTI)

During February 2021 and in response to the significant uplift in Treasury Notes on issue, the Committee introduced conventions for Treasury Notes. The Committee's focus is currently on conventions for secondary market trading of the NCDs issued by all ADIs. This is in response to the uplift in both issuer and investor interest in this sector of the NCD market.

Repo

In collaboration with AFMA's Operations Committee, the Repo Committee collaborated with ASX and Austraclear on the linked settlement initiative which is expected to provide significant efficiencies in repo settlement. All market repos will be settled using the dedicated market repo module in Austraclear from 22 November 2021 onwards.

AFMA also collaborated with the ASX and the RBA as part of endeavours to resolve repo settlement frictions stemming from the broader market's appetite to borrow the Australian Government Bonds targeted for purchase by the RBA. To avoid the risk of uneven information dissemination during a change to the market rate at which the RBA would lend these bonds AFMA reached an expedited agreement with RBA on a suitable framework for these releases.

Interest Rate Derivatives (Swaps)

The major issue for the Swaps Committee over the past year has been the impending transition from IBOR (interbank offered rates) related reference rates. Global financial markets regulators have reiterated their expectations for market participants to transition away from the use of IBOR based benchmarks by the end of 2021, if not sooner. The transition from LIBOR will impact the Australian interest rate derivatives market through cross currency basis swaps which are instrumental for Australian based financial institutions raising capital in offshore markets (the US in particular) and for offshore Kangaroo bond issuers borrowing from Australian investors and swapping the proceeds back to their domestic currency. ASIC, APRA, and the RBA expect all Australian market participants to adhere to the deadline at the end of 2021 for the issuance of new LIBOR contracts.

Interdealer brokers, in consultation with the Swaps Committee, developed yield curves for BBSW/LIBOR, BBSW/SOFR and indicative yield curves for AONIA/SOFR prices that have been back solved off Bills/OIS basis (BOB) swaps. Conventions and term sheets have been proposed to provide a framework for market participants to consider the most appropriate methodologies for trading swaps once LIBOR has finished. Committee members noted deteriorating conditions in liquidity and transparency for cross currency swaps but this was mainly the result of uncertainty of the appropriate basis swaps to be used to replace Bills/LIBOR following the discontinuation of LIBOR.

The announcement of the "SOFR First" initiative from the Commodity Futures Trading Commission's (CFTC) Market Risk Advisory Committee recommending that interdealer brokers replace trading of LIBOR linear swaps with Secured Overnight Financing Rate (SOFR) linear swaps from late July increased the urgency in preparations for the transition. The ARRC met with AFMA's IBOR Transformation Australian Working Group (ITAWG) in July to discuss the potential for a coordinated switch date in reference rates for cross currency basis swaps for major LIBOR currencies to RFRs.

Feedback from AFMA Members suggests that most institutions were well advanced in operational readiness for the change in cross currency basis swaps but while, conceptually, it is relatively easy to quote new basis curves, ensuring that systems and operations are able to process the transactions will still be challenging for some.

AFMA maintains the Australian OTC Market Conventions, and where necessary will amend or add to these, also clarifying aspects of the rules governing markets.

OTC Market Conventions

AFMA maintains the Australian OTC Market Conventions, and where necessary will amend or add to these, also clarifying aspects of the rules governing markets. Over the course of the 2021 financial year, the following amendments and new conventions were introduced to improve market performance and add greater clarity around market practices.

MARKET COMMITTEES

OTC Market Conventions

Convention name	Change	Reason	Date
Interest Rate Derivatives (Swaps)	Amendment	Neutral date windows for domestic basis swaps and cash/ BBSW swaps were narrowed.	1 Jul 2020
Negotiable/Transferable Instruments (NTI)	Amendment	Clarification of the settlement methodology description.	1 Jul 2020
Long Term Government Debt Securities	Amendment	The floating rate note (FRN) formula in the Long-Term Government Debt Securities Conventions required a non-material amendment to deal with zero interest rates and also to deal with a zero-floor coupon.	13 Jul 2020
Credit Products	Amendment	The FRN formula in the Credit Product Conventions required a non-material amendment to deal with zero interest rates.	13 Jul 2020
Definition of AONIA	New guidance	To assist the market, AFMA published the definition of AONIA to clarify its meaning.	10 Aug 2020
Interest Rate Options	New convention	Introduction of conventions for settling the premium payable on a 'Wedge', i.e. a Cap/ Floor Straddle vs Forward Swaption Straddle.	30 Nov 2020
Negotiable/Transferable Instruments	New convention	Introduction of secondary market trading conventions for Treasury Notes given materially increased issuance and trading.	3 Feb 2021
Negotiable/Transferable Instruments	Amendment	The definition of the Rolling Maturity Pool was aligned to the ASX BBSW conventions rather than being hard-coded.	3 Feb 2021
Environmental Products	Amendments	Physical settlement for forward contracts was outlined as the established market practice, with cash settlement as the fallback. The spot contract definition was also amended to make it clear that spot transactions are intended to be settled within a few business days of a trade being negotiated.	15 Mar 2021
Credit Products	Amendment	Clarification of the conditions to be satisfied for the use of the AFMA formula applicable to FRNs with zero coupon floors.	4 Jun 2021
Long Term Government Debt Securities	Amendment	Clarification of the conditions to be satisfied for the use of the AFMA formula applicable to FRNs with zero coupon floors.	4 Jun 2021

Energy Governance Committee

The financial derivative or contract market is a key feature of the National Electricity Market (NEM). The use of financial contracts to avoid exposure to volatile spot prices plays a significant role in determining ongoing financial outcomes for market participants (providing certainty of energy purchase costs for retailers and revenues for generators), which ultimately affect consumers. As the contract markets are derived from expectations of future spot prices, price signals provided by contract markets in the NEM are used by market participants to make appropriate investment and retirement decisions around assets.

As Australia moves to a lower emissions economy, robust financial contract markets will play a significant role in ensuring the ongoing reliability of power supply and providing necessary financial incentives to invest in new generation. Accordingly, in mid-2021 AFMA established an Energy Governance Committee that provides policy direction on the development of energy financial markets, supervises the development and maintenance of market protocols and operational standards that facilitate and promote the smooth running of the energy financial markets, and promotes high ethical standards in the energy financial markets in Australia.

Electricity Market

Energy transition

A key issue on the federal energy policy agenda is the Energy Security Board (ESB) Post 2025 Market Design Project, for which final reform recommendations were made to Ministers in July 2021. One aspect of the ESB's work involves significant transmission and access reform, aimed at lowering the costs and risks associated with getting new generation and storage into the grid. AFMA facilitated a range of member engagement sessions with the ESB throughout the year and made submissions to express concerns that changes to transmission access arrangements would have a detrimental impact on electricity financial market liquidity and efficiency.

5 Minute Settlement

The settlement period for the electricity spot price is changing from 30-minute intervals to every 5 minutes in 2021. In 2020, AFMA's 5 Minute Settlement Working Group developed standardised documentation for OTC electricity derivative transactions, including swaps, caps, floors and a range of other products. In mid-2021, AFMA engaged with AEMO and AEMC as it conducted contingency planning in the event that a delay was required to the 1 October start date, emphasising that an intra-quarter start date would not be preferred due to the potential disruption of contractual arrangements.

OTC transparency

AFMA continues to support enhanced transparency in the OTC markets through its publication of the AFMA Electricity Derivatives Turnover Report on the AFMA website. The report comprises aggregated OTC and exchange-trade data compiled from a survey of the principal OTC participants and the ASX.

Environmental Products

Throughout 2020, members of the Environmental Products Committee and related Documentation Working Group worked through issues related to seller delivery default. Changes to the Environmental Products Conventions to clarify expectations around established market practices for physical settlement and changes to the AFMA contract for spot transactions were finalised in March 2021. AFMA has also increased its level of engagement with relevant scheme administrators in NSW and Victoria to address concerns around market transparency and liquidity.

AFMA's Environmental Products Committee is the committee dedicated to developing conventions and standardised documentation and discussing market activity related to a range of legislated emissions reduction schemes (including ACCUs, LGCs, STCs, ESCs and VEECs). Given the growth in trading activity and various changes to the carbon market landscape expected in coming years, AFMA is also expanding the remit of the Environmental Products Committee and establishing a Carbon Markets Working Group that will discuss emissions reduction related public policy issues, carbon finance related matters and market developments. ■

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PROFESSIONALISM

The Professionalism Committee continues to lead AFMA's professionalism initiative, overseeing a program of work committed to the ongoing development of professionalism in financial markets.

Collaboration with Macquarie University for Accreditation Education

2020/21 was a landmark year for AFMA's Accreditation program, as AFMA entered into a Collaboration Agreement and Statement of Work with Macquarie University Business School (MQBS) for the University to deliver courses to satisfy the education requirements for AFMA Accreditation. The purpose-built Financial Markets Certificate, offered by MQBS, provides high quality training to member firms for their staff. Since the first students commenced in March 2021, enrolments in the MQBS course have been strong and continue to grow.

MQBS was selected after a rigorous RFP process and demonstrated to AFMA that it had the expertise, industry experience and scale to enhance the existing AFMA program and to deliver the program to students using modern teaching methods and technology. It is expected that through leveraging MQBS' scale, there may be more efficient pathways to AFMA accreditation and further electives may, in time, be developed which will broaden the scope of member-firm employees that will be eligible for AFMA Accreditation.

The outsourcing of education to a university makes AFMA accreditation more flexible and relevant to evolving market

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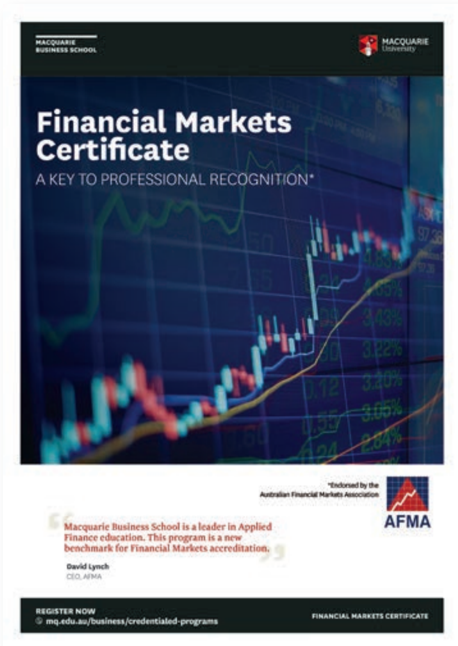


conditions. It also provides members with another component to help manage conduct risk, especially in the context of executive accountability regimes or as part of a response to regulator expectations for industry participants to lift professionalism standards in financial services. The accreditation education program can now be developed as required should regulators decide to mandate requirements for the professionalism of individuals in the wholesale financial markets.

Successful completion of the program will also entitle students to credit for the purposes of a Graduate Certificate or the Master of Applied Finance.

Accreditation Governance Committee

During the year, AFMA established an Accreditation Governance Committee (AGC) to replace the Accreditation Board. Its terms of reference are more appropriate to the operating environment now that the key education qualification for AFMA Accreditation is being provided by Macquarie Business School. AFMA's Board has expressed its appreciation to the Accreditation Board for its support of AFMA's Accreditation program over many years.

The AGC's objectives are to:

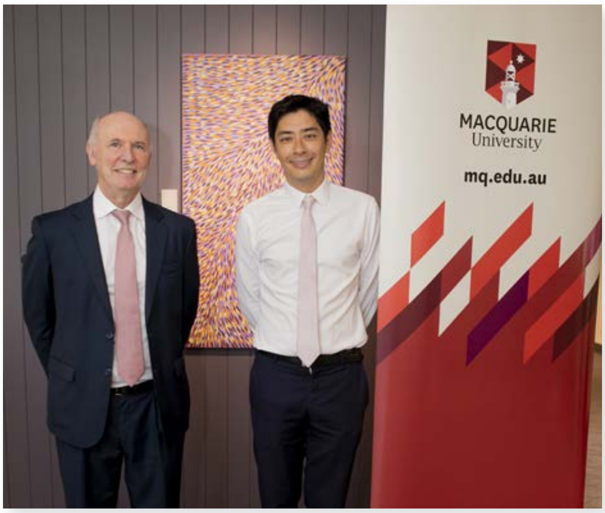
- Provide thought leadership and strategic guidance on matters concerning the structure, scope, and operation of AFMA's Accreditation system;
- Ensure that AFMA Accreditation contributes in a substantive way to the effectiveness of the Association's strategy to support professionalism in financial markets; and
- Provide governance oversight for the implementation of AFMA's Accreditation program.

The Committee has been established and has already become a vital source of member input on the ongoing operation and development of the Macquarie University education program.

Conduct & Ethics Course

AFMA continues to teach the *Professionalism: Conduct & Ethics course*, a mandatory requirement for AFMA Accredited individuals to maintain their accreditation. During the year, more than 900 students enrolled in the course. AFMA remains

The Accreditation Governance Committee has been established and has already become a vital source of member input on the ongoing operation and development of the Macquarie University education program.



David Lynch, CEO, AFMA and Macquarie Business School Executive Dean, Professor Eric Knight.

Macquarie Business School Executive Dean, Professor Eric Knight, and Rob Colquhoun, Company Secretary, AFMA signing the Agreement.

committed to ensuring that Accredited individuals are given an officially recognised skill set to objectively demonstrate competence in applying ethical decision-making frameworks in the context of financial markets.

Consequence Management Standard

During the year, AFMA finalised its Consequence Management Standard and has commenced supporting the process of implementation with member firms.

The Consequence Management Standard is designed to bring a greater level of consistency to member firms' response to breaches by staff. The standard was designed with AFMA Accredited staff in mind but has wider application. AFMA Accredited individuals have AFMA Code of Conduct breaches managed by their employer firm. The new standard supports this construction and avoids having an external body potentially second-guessing firm determinations, and in doing so reduces risks for firms.

Conduct Training Practice Guide

The Professionalism Committee approved the release of a Conduct Training Practice Guide in November 2020. The Guide assists member firms to design and implement effective education and training programs for their employees in relation to matters of individual and company conduct in the financial markets. The Guide was developed with significant member input and sets out the principles that underpin an effective training program for employees in relation to conduct.

Risk and Regulation Short Courses

In March 2021 AFMA released two online short courses on Risk and Regulation that are suitable for CPD purposes and available free of charge to current AFMA Accredited Individuals in recognition of their ongoing support for our Accreditation program.

- The Regulatory Environment for Financial Markets – 5 CPD hours
- Risk Management for Financial Markets – 5 CPD hours

INTERNATIONAL ENGAGEMENT

AFMA's CEO chaired the International Council of Securities Associations (ICSA) over the two years to June 2021. ICSA is the global organisation of 19 securities industry associations that develops common positions on policy and regulatory matters that promote safer and more integrated capital markets and has regular discussions with IOSCO and the Financial Stability Board. This provides a unique mechanism to project the interests of AFMA members in the work of these bodies. Key initiatives in 2020/21 included work to address cross-border market fragmentation problems, contain the cost of global market data and enhance operational resilience.

AFMA continued its close and long-standing relationships with counterparts such as ISDA, ICMA and ASIFMA. Our ongoing collaboration with these bodies directly assists the efficient operation of the Australian markets.

AFMA and four other industry associations operating in the Asia-Pacific (ASIFMA, ISDA, FIA and IBAJ) commenced engagement with regulators in the region last year to request a business continuity regime based on pre-agreed regulatory approvals that would enable global firms to transfer operations between Hong Kong, Singapore, Sydney and Tokyo in the event of a crisis.

More generally, national regulation has some connection to the work of the global standard setting bodies, including IOSCO, the Basel Committee on Banking Supervision and the Financial Stability Board. AFMA engaged directly with respect to IOSCO consultations in relation to outsourcing to ensure that any proposals were agnostic to technology and adopted a proportionate approach. AFMA member firms are stakeholders in this process and need global standards that assist the efficient conduct of business and promote confidence in financial markets. AFMA used its role in ICSA to facilitate engagement with IOSCO and the FSB on a range of related matters over the last year.

AFMA responded to IOSCO on its proposed fundamental precepts and seven principles on outsourcing in financial markets. In AFMA's view, the updated principles are well-founded in that they are technology agnostic and support proportionality of assessments based on the degree of materiality and criticality of the outsourced tasks. AFMA commented that one of the proposed principles should be refined to make it consistent with good commercial practice for safeguarding data. AFMA also responded to an IOSCO consultation on the Use of Artificial Intelligence and Machine Learning by Market Intermediaries and Asset Managers. In substance, AFMA commented that the level of analysis in the consultation paper in general is insufficient for the specificity of the recommendations made. While the overall direction of the recommendations is, at a high-level, mostly satisfactory, further refinement is needed, which will require a far deeper analysis of the issues.

AFMA continued its close and long-standing relationships with counterparts such as ISDA, ICMA and ASIFMA. Our ongoing collaboration with these bodies directly assists the efficient operation of the Australian markets.

The high cost of market data has received considerable attention from ICSA, having successfully convinced IOSCO that this is a matter that warrants its consideration. In February 2021, ICSA and GFMA made a joint submission in response to an IOSCO consultation on equities market data, which highlighted the need for action to address the harmful impact of the rapidly accelerating cost of market data in many jurisdictions.

AFMA has had a productive engagement with the FICC Markets Standards Board (FMSB) since its inception, in

INTERNATIONAL ENGAGEMENT

AFMA acted as a conduit for information back to the market and maintained cross-border liaison with the US Alternative Reference Rate Committee and the UK Working Group on Sterling Risk-Free Reference Rates.

recognition of our shared interest in good market practice and effective markets. The dialogue was maintained during the year with a view to providing streamlined market practice standards for members, where this is appropriate to our market context.

In 2021, AFMA's CEO and Chair held discussions with FMSB representatives including Mark Yallop and CEO, Martin Pluves, with resulting follow up meetings meet with AFMA Directors and Professionalism Committee members. There was discussion around how FMSB standards that are relevant to the market here might be put in practice subject to differences in market structures and business practices across countries. AFMA's Professionalism Committee has recognised this and has an active workstream to determine the principles to guide the adoption of global industry standards here.

The biggest global market issue over the last year has been IBOR transition. AFMA acted as a conduit for information back to the market and maintained cross-border liaison with the US Alternative Reference Rate Committee and the UK Working Group on Sterling Risk-Free Reference Rates. AFMA cooperated with ISDA in the development of the ISDA IBOR Fallbacks Protocol and worked with its members and the market more generally on the important issues associated with LIBOR transition in the Australian market including the adoption of the ISDA Protocol covering derivatives contracts. This was an important impetus for the ongoing work here on developing standardised fallback language for other categories of financial products, which AFMA is continuing to work on. ■

ACTIVITY ON AUSTRALIAN FINANCIAL MARKETS

Functioning of Australian Financial Markets

The Australian financial markets performed exceptionally well during challenging circumstances during the 2020/21 financial year in servicing the financing requirements of Australian businesses and governments and in doing so assisting them and the Australian economy through difficult times.

Equity markets saw record capital raisings of $66 billion in calendar year 2020, while debt markets serviced an AUD issuance of over $240 billion of Government debt to assist Australia through the economic downturn.

Australia's markets remained well served by a stable and well-functioning local benchmark BBSW, operated by ASX since January 2017, which has meant local firms are not as directly impacted by the IBOR transitions being enforced in other jurisdictions. However, the move to Risk Free Rates (RFRs) in other jurisdictions has meant that Australian markets have had to make sensible preparations in fall back RFR rates and in preparing to quote risk-to-risk-free rate products. AFMA has assisted this work including by providing the secretariat functions for the IBOR Transformation Australian Working Group, which is the national working group for considering the relevant strategic issues facing Australia.

OTC Markets

Australian Government Securities

The COVID-19 pandemic and accompanying economic downturn were the catalysts that saw Australian public debt increase significantly as money has been borrowed and spent on an extremely large economic stimulus effort. Federal and State governments have utilised larger debt levels to finance deficit spending and infrastructure investment.

FIGURE 1: Commonwealth Government Bonds – Volume traded

Source: AOFM

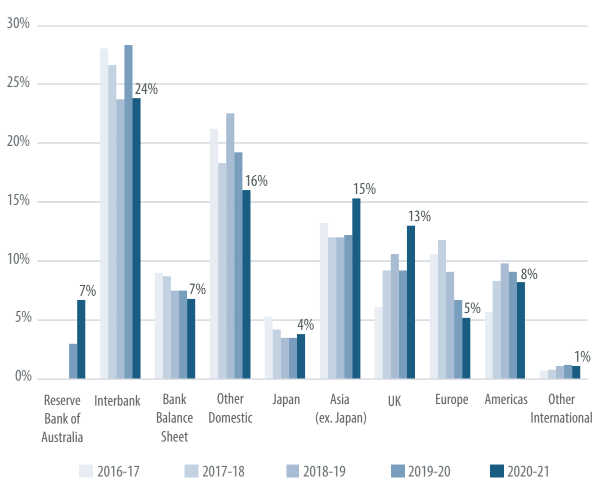
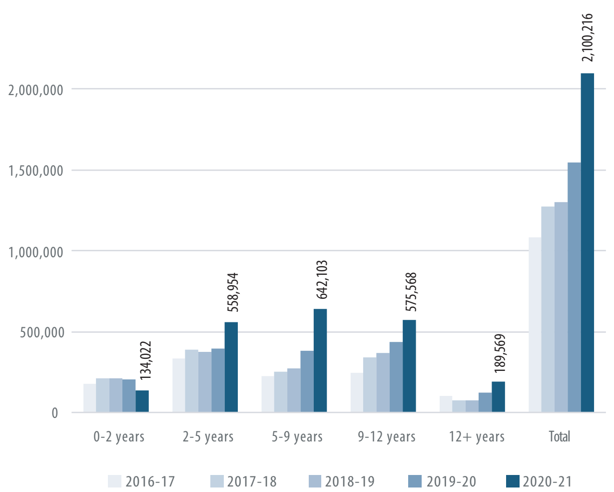


FIGURE 2: Treasury Bonds – Volume traded by Tenor ($m Face Value)

Source: AOFM



ACTIVITY ON AUSTRALIAN FINANCIAL MARKETS

FIGURE 3: Treasury Indexed Bonds – Volume traded by Tenor ($m Face Value)

Source: AOFM

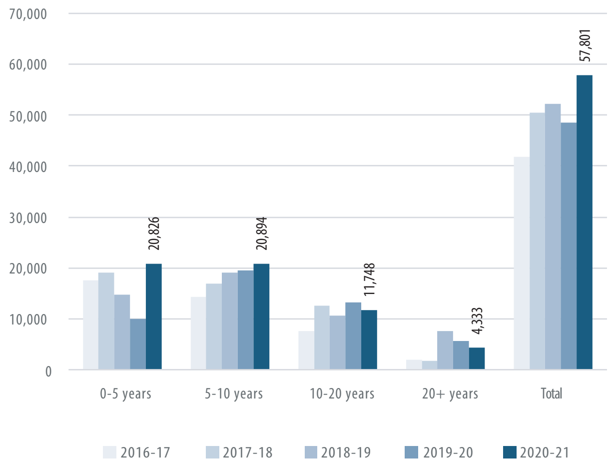
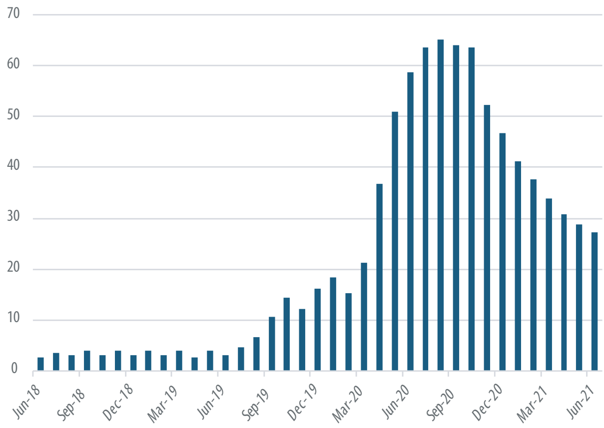


FIGURE 4: Treasury Notes: Face Value Outstanding ($ billion)

Source: AOFM



The volatility that accompanied trading in Australian Government and Semi-Government debt in the early stages of the pandemic was quelled by action taken by the RBA in mid 2020. The Bank lowered the official cash rate to record low levels, provided a Term Funding Facility (TFF) where banks could borrow for three years at 0.25% to pass onto businesses and implemented a Yield Curve Control (YCC) program where the RBA bought three year Government and Semi-Government securities to stabilise mid-term interest rates at around 0.25%. The raft of measures introduced by the RBA were well received by market participants and market conditions improved.

Bond yields were confined to tight trading ranges in the second half of 2020. Towards the end of the year, growing signs of a global economic recovery, fast-tracking of vaccine rollouts and positive economic data were the causes of market optimism and was reflected in a steepening in yield curves as longer bond yields surged back to levels last seen before the pandemic.

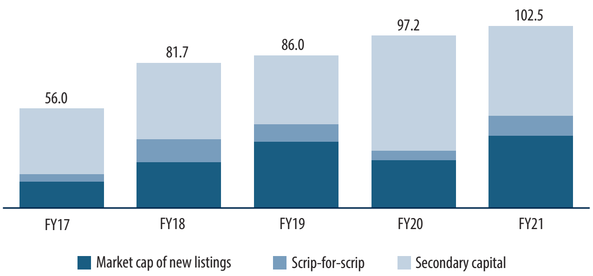
Bond yields rose during the first quarter of 2021, on expectations of higher future inflation following the significant fiscal and monetary policy initiatives deployed since the onset of the pandemic. The market's assessment of these risks abated somewhat in the second quarter following comments from the RBA and the US Federal Reserve that the spike in inflation reflected the effects from demand-supply imbalances resulting from the pandemic, and that higher inflation was "transitory". This saw a pause in the upward rise to bond yields and subsequently returns were positive during the quarter, recovering a reasonable proportion of the losses incurred in the prior period.

Equity Capital Markets

In FY21, $102.5 billion of capital was raised on ASX markets, the highest amount in over a decade. During the period, 176 new listings raised a total of $40.6bn, up from 83 listings and $27.0 billion of initial capital raised in FY20, and, above the $37.4b raised pre-COVID in FY19. Secondary capital raisings remained strong during the first half of the FY21, supported by the work ASX undertook with regulators and equity capital market participants on capital raising flexibility to help support listed companies and enable rapid recapitalisations in the wake of the onset of the global COVID-19 pandemic.

FIGURE 5: Total Capital Raised on ASX ($billion)

Source: ASX



The Chi-X Australia investment products market continued to grow in FY21, increasing from $43.8 million assets under management in July 2020 to $2.18 billion in June 2021, a multiple increase of nearly 50 times. This reflected the growing number of actively managed funds, uniquely quoted and traded on the Chi-X market.

FIGURE 6: Equity – Average Daily Turnover

Source: ASIC

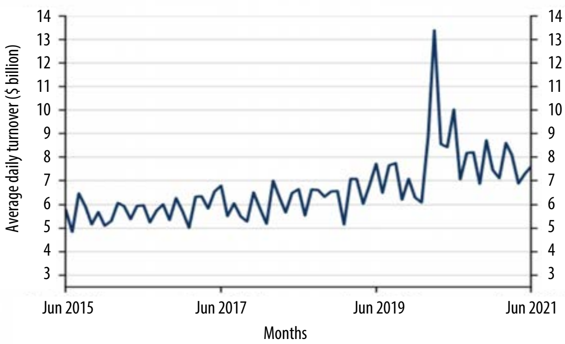
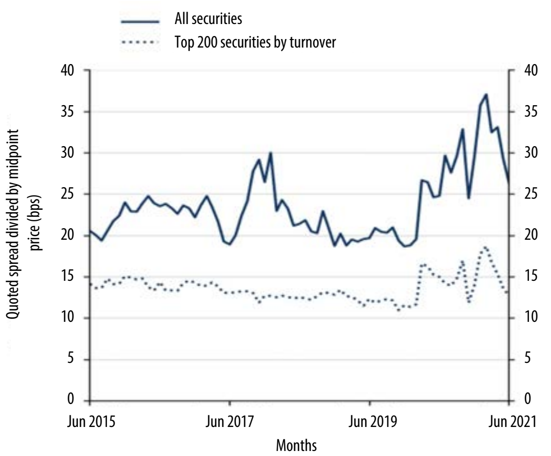


FIGURE 7: Quoted Bid-Ask Spreads

Source: ASIC



Debt Capital Markets

Like many markets, primary issuance through Australia's debt capital markets in 2020/21 was heavily affected by the events of the COVID-19 pandemic. While Australian dollar issuance soared to record volume of A$240.5 billion for the whole of 2020, the bulk of debt capital raised was predominantly Australian federal and state government issued securities. Volume from non-Australian government issuers for the whole of 2020 was down significantly, to A$79.9 billion from A$99.8 billion in 2019, and at its lowest since 2011.

The volatility and uncertainty caused by the pandemic pushed most non-government issuance to the second half of the year. The 20% drop in volumes was attributed to the absence of significant issuance from Australian financial institutions and the Kangaroo supranational, sovereign and agency (SSA) sector. Non-government issuance also got off to a slow start in 2021 and while total issuance in the first half of the year eventually picked up to A$57.4 billion it was still the lowest first half issuance volume since 2017 and well down on pre-pandemic figures.

Australia's four major banks had less reason to call on debt capital markets in 2020/21 for senior-unsecured funding because of significant deposit inflows and support from the RBA's term-funding facility (TFF) which provided the banks with attractively-priced funding to lend to Australian businesses. The major banks issued A$14.4 billion in 2020, down from A$30.6 billion in 2019.

Australian domestic banks were still benefiting from deposit funding and the RBA's TFF in the first half of 2021. The major banks comprise a significant slice of Australian credit supply and market participants expect them to access markets in the second half of 2021 following the termination of the TFF at the end of June. An easing in the cost of cross-currency basis-swaps and less supply from the AOFM and semi-government issuers brought the SSAs back to market in the first half of 2021 and Kangaroo issuance was a solid A$11.7 billion from A$6.4 billion in same period in 2020.

On a brighter note, Australian dollar deal flow from non-major banks hit an all-time high in 2020 with A$28.6 billion priced, an increase on the previous record of A$27.6 billion set in 2019. The COVID-19 pandemic paused tier-two issuance but non-major banks were active in the market in the second half of 2020 to account for an increase in total loss-absorbing capacity (TLAC) equivalent requirements.

The volatility and uncertainty of the pandemic created choppy market conditions for corporate issuers and many of them also delayed borrowing into the second half of 2020. A historically low interest-rate environment made for attractive issuance conditions and the need for yield with a low cash rate in place forced institutional investors to look further out on the corporate credit spectrum and tenor curve for opportunities. Corporate issuance in the second half of 2020 reached A$11.5 billion, almost eclipsing the record A$12.6 billion issued in the second half of 2017.

FIGURE 8: All Australian Debt – Issue Type Composition (AU$bil)

Source: Refinitiv

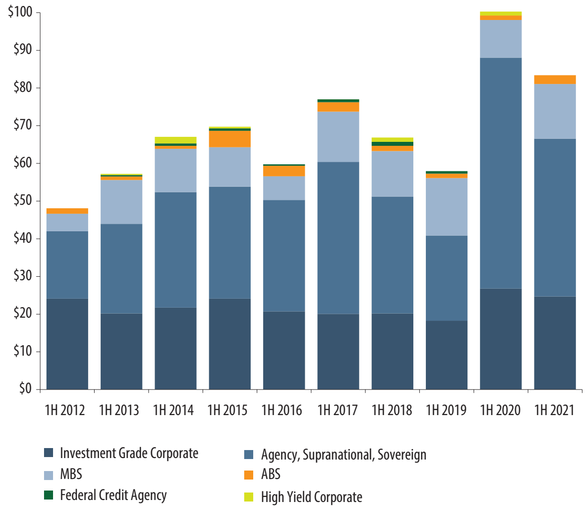
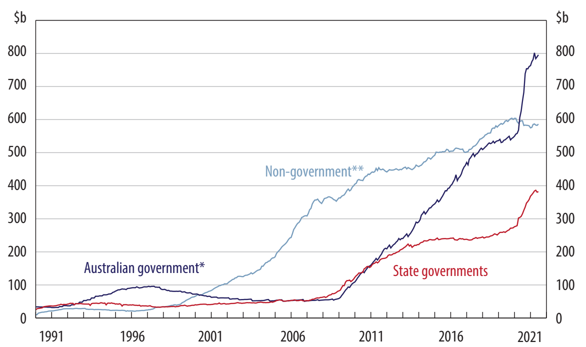


FIGURE 9: Bonds on Issue in Australia

Sources: ABS; AOFM; Bloomberg: KangaNews; Private Placement Monitor; RBA; State Treasury Corporations



* Excludes bonds purchased by the Australian Government

** Excludes ADIs' self-securitisations, includes government-guaranteed bonds

This positive momentum for corporate issuance continued into 2021 with the sector setting a record for the largest volume ever issued in the first six months of a year. Total volume was A$10.2 billion, surpassing the previous record A$7.9 billion set in 2017. While a handful of large transactions dominated the first half of the 2021 calendar year, this was augmented by returning issuers with more modest individual deal volume.

Australia's securitisation sector experienced a fall in issuance due to volatility in the early days of the pandemic but rebounded in the second half of the year to a level consistent with prior years. The drop in securitisation issuance for the entire year to A$34.3 billion from A$44.1 billion in 2019 is largely explained by the absence of banks given the inflow of deposits and the RBA's TFF. Banks issued A$8.1 billion of securitised product in 2020 versus an annual average of A$21.3 billion over the previous few years.

The absence of significant major bank issuance created a vacuum that securitisation firms from the non-bank sector filled. Non-banks issuing asset backed securities had a record year in 2020 with A$26.2 billion issued from the previous high of A$23.5 billion issued in 2019. Structured-finance issuance surged in H1 2021, to A$17.7 billion from A$13 billion the prior year and non-banks comprised A$15.3 billion of the total.

Interest Rate Derivatives

Trading conditions in swaps and other interest rate derivatives were difficult at the start of the financial year, bearing the legacy of volatility that affected all markets as the COVID-19 pandemic commenced to take effect in early 2020. Liquidity in the swaps market faced challenges from the low interest rate environment, the RBA's yield curve control program, increasing inflation expectations and heavy issuance by the Australian Office of Financial Management (AOFM) to implement the Government's fiscal stimulus. Consistent issuance by the AOFM brought market focus to the Government bond market and the volume of asset swaps transacted increased dramatically as investors sought to convert their long-term fixed rate assets to floating rates.

Market liquidity and transparency consolidated in the latter half of 2020 as yields traded on commentary from central banks that interest rates would remain low for some time. Higher inflation expectations and potential central bank tapering of bond purchases early in the new year triggered a selloff in global government bond markets that saw the Australian ten year yield back up by seventy basis points. Liquidity fell dramatically in the first quarter of 2021; however, expectations of higher inflation abated and market conditions became more orderly as liquidity returned in the second quarter.

FIGURE 10: Fixed-for-Floating IRS – Weekly Traded Notional and Trade Count

Source: ISDA SwapsInfo

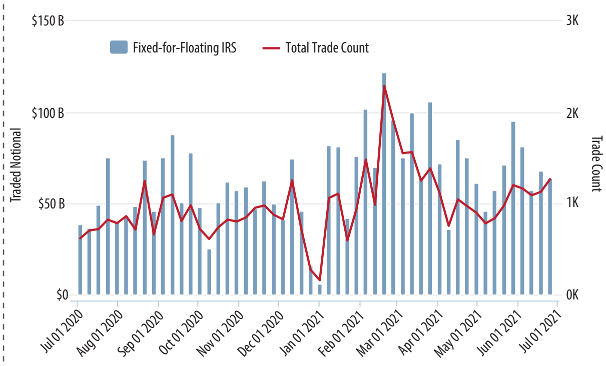


FIGURE 11: Basis – Weekly Traded Notional and Trade Count

Source: ISDA SwapsInfo

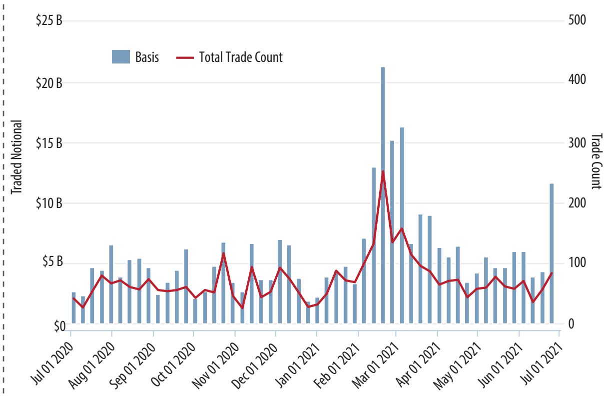
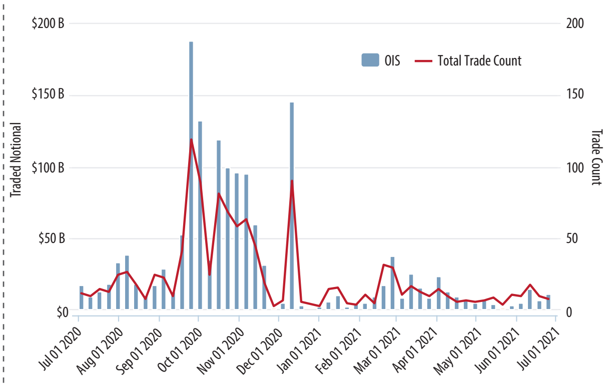


FIGURE 12: OIS – Weekly Traded Notional and Trade Count

Source: ISDA SwapsInfo



Note: The ISDA SwapsInfo data only covers transactions that are required to be disclosed under US regulations.

Foreign Exchange

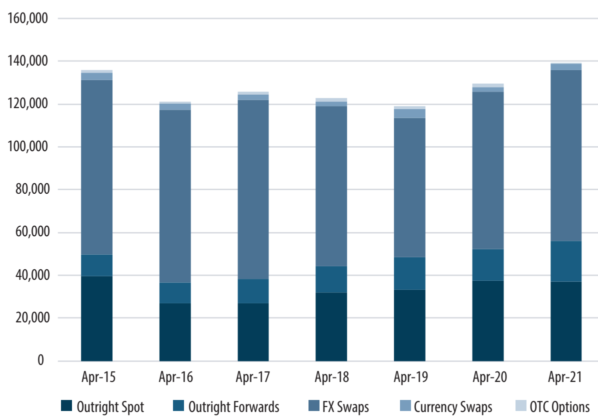
The USD kept falling against most currencies in subdued trading during the second half of 2020 to levels not seen since 2018. Liquidity was affected but not as dramatically as in the early days of the pandemic. AUD bid-offer spreads were approximately 20 per cent wider than normal market conditions. The US DXY index, which shows the value of the USD relative to a basket of six major currencies, slid from 98 to 96. By early December it had fallen further to 90.

USD weakness was expected to continue as the new year dawned but, for the six months to June 2021, the USD was confined to tight trading ranges against the AUD and EUR and was stronger against the JPY but weaker against the GBP. Members of the Australian Foreign Exchange Committee (AFXC) reported that liquidity conditions and market functioning in foreign exchange markets had remained orderly since the start of 2021.

Measures of market liquidity for the Australian dollar had been consistent and AUD trading volumes rose in the first quarter but declined in the second quarter of the year. With asset markets also orderly, there was little catalyst for Australian asset managers to adjust hedges during this period. Bid-offer spreads in forwards were very narrow, reflecting that traders were comfortable to warehouse risk given abundant central bank liquidity from both the RBA and Federal Reserve.

FIGURE 13: Foreign Exchange Turnover by Instrument – Daily average (US$m)

Source: AFXC



ACTIVITY ON AUSTRALIAN FINANCIAL MARKETS

Sustainable Finance

In recent years, the Australian debt markets have seen a steady rise in sustainability-related issuance in line with environmental, social and governance (ESG) principles. However, Australian dollar green, social and sustainability (GSS) bond issuance suffered during the pandemic with only A$7 billion issued in 2020 versus 2019's record A$10.2 billion. A lack of green issuance from SSAs was the main cause of the fall in issuance. Financial institutions and Semi-Government GSS issuance went some way to filling the gap.

2021 saw a bounce-back in ESG-aligned issuance as deal flow for the first six months totalled A$8.2 billion, surpassing the total or the whole of 2020. SSAs have been the standout sector for GSS issuance with A$6.1 billion printed in H1. The notable emergence of green securitisation also increased the Australian dollar sustainable issuance.

In a key regulatory development from the Australian context, APRA released a draft prudential practice guide CPG 229 Climate Change Financial Risks in April 2021. The guidance seeks to ensure that regulated entities manage the risks and opportunities arising from a changing climate within their overall business strategy and risk appetite by using appropriate risk management frameworks. APRA also progressed with the Climate Vulnerability Assessment (CVA) with Australia's largest five banks.

FIGURE 14: Australian Dollar ESG-linked Issuance by Security Type

Source: KangaNews 9 September 2021

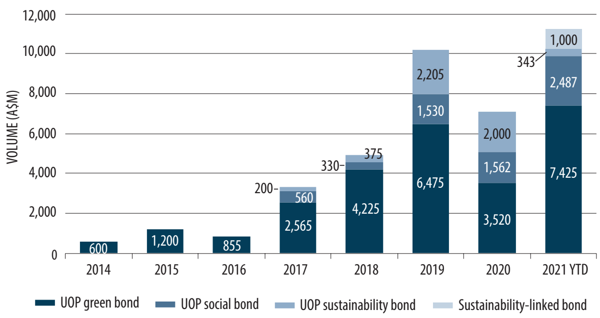


FIGURE 15: Australian Dollar ESG-linked Issuance by Sector

Source: KangaNews 9 September 2021

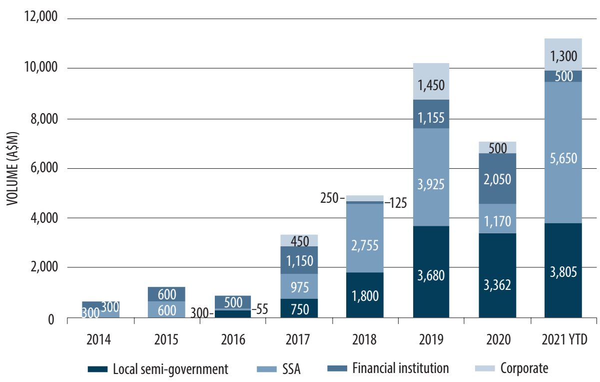
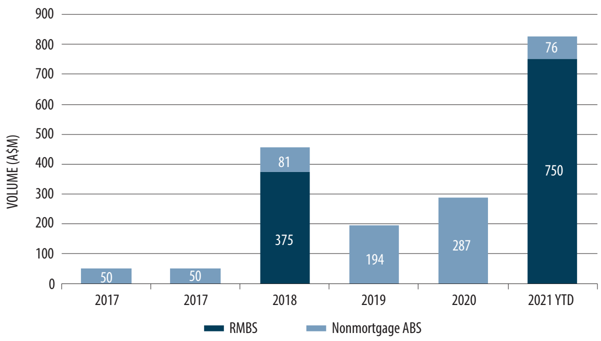


FIGURE 16: Australian Dollar Green Securitisation

Source: KangaNews 4 September 2021



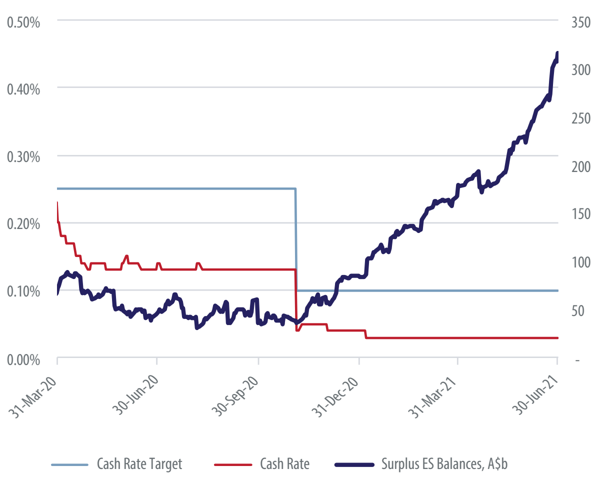
RBA Monetary Policy

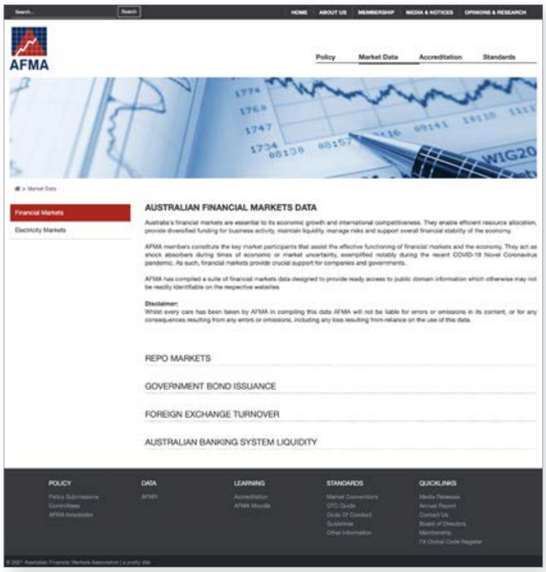
Following on from its March 2020 policy to support the Australian economy in response to COVID-19, at its November 2020 Board meeting the RBA further reduced the cash rate target and the 3-year Australian Government Securities yield target to 10 basis points from the previous target of 25 basis points. At the same time the RBA reduced the interest rate it pays on Exchange Settlement balances from 10 basis points to zero and introduced a $100 billion program of government bond purchases focussing on the five to ten-year segment of the yield curve as an additional means to achieve its three-year yield target objective.

Taking this a step further in February 2021, the RBA announced the purchase of an additional $100 billion worth of government bonds driving interest rates lower, this designed to further support to the Australian economy in recovery. Accompanying

FIGURE 17: RBA Cash Rate and Surplus ES Balances

Source: RBA





the lower interest rates was a decline in the exchange rate, enhancing Australia's export competitiveness.

RBA's forward guidance is that it will not increase the cash rate until actual inflation is sustainably within the target range, and that labour market conditions improve sufficient to support a lower unemployment rate. While Australia's economic recovery is underway, given the uncertainties accompanying the trajectory out of the shadow of COVID-19, RBA monetary support is thought to be likely to continue during fiscal 2022.

AFMA's New Market Data Webpage

AFMA launched a new market data page on our website. This publication replaces the Australian Financial Markets Report (AFMR) that was published annually until 2017.

The page compiles a suite of financial markets data designed to provide ready access to public domain information which otherwise may not be readily identifiable on the respective websites.

The initial iteration covers data on the following market transactions:

- Repo Markets
- Government Bond Issuance
- Foreign Exchange Turnover
- Australian Banking System Liquidity

AFMA IN THE COMMUNITY

The Financial Markets Foundation for Children

The Financial Markets
FOUNDATION FOR CHILDREN

AFMA is proud to provide financial accounting and professional support to the Financial Markets Foundation for Children. The Foundation is pivotal in providing ground-breaking medical research promoting the health and well-being of Australian children.

Due to the COVID-19 Pandemic, the Foundation was required to pause the approval of new grants during the year. However, the Foundation did pay over $500,000 in relation to previously approved grants. In addition, the Foundation continued its funding of perpetual chairs into paediatric research at eminent Universities and specific funding for child brain-cancer research.

AFMA continues to ensure that the financial position of the Foundation is appropriately recorded, while it is looking forward to shortly co-ordinating the grants process and providing assistance in the Foundation's Gala Ball, which hopefully will occur in 2022.

AFMA STAFF

David Lynch

Rob Colquhoun

David Love

Damian Jeffree

Management

DAVID LYNCH (until October 2021)

Chief Executive Officer

Reporting to the Board, David is responsible for the overall performance of AFMA in representing the interests of members in dealing with industry policy issues (including market operations) and in providing education and documentation services to members. David leads the Management Committee and is the Association's primary spokesperson.

ROB COLQUHOUN

Company Secretary, Financial Controller and Director, Policy

Rob is a member of AFMA's Management Committee and performs financial control and company secretary functions for the Association. From a policy perspective, Rob focuses on AFMA's taxation issues, encompassing corporate tax, international tax and indirect taxes as well as providing support to AFMA's Anti-Money Laundering Committee. Rob consults heavily with Treasury, the ATO and AUSTRAC and is a member of the key Treasury consultation groups. During the year, Rob assumed responsibility for AFMA's Education and Professionalism agenda.

Policy Team

DAVID LOVE

General Counsel and International Adviser

David manages AFMA's legal and compliance risk and deals with developments in the regulatory environment for the Association. This role includes overseeing AFMA's documentation and market standards.

David plays a leading role in policy development for financial market infrastructure, securities and derivatives markets services, OTC and capital market practices, IBOR and other benchmark issues, energy markets and setting the strategic regulatory policy direction for the industry in Australia and other jurisdictions. He plays a key role in AFMA's ongoing relations with Treasury, ASIC, APRA and the RBA.

David also has responsibility for AFMA's international relationships with counterpart associations and international groups and authorities.

David is responsible for managing AFMA's compliance committees, the Documentation Committee along with the OTC guide, and the legal committees for the equity and debt capital markets. A key part of his work centres on LIBOR transition and benchmark associated issues.

DAMIAN JEFFREE

Senior Director of Policy

Damian is the Senior Director of Policy, leading multiple policy initiatives and is a key interlocutor for the industry with many of AFMA's important stakeholders including ASIC, APRA, Treasury, the RBA, and Ministerial offices.

AFMA STAFF

Mark McCarthy

Murray Regan

Nikita Dhanraj

Natalie Thompson

Policy Team continued

Over recent years Damian has enhanced AFMA's role as a policy body for the financial markets in information security. Damian is also responsible for multiple committees relevant to OTC markets including MGC, wholesale equities (including CHESS replacement), futures, retail broking, IT, information security, and operations.

MARK McCARTHY

Director – Markets and Membership

Mark is the executive responsible for managing the operation of Market Committees in Debt Securities, Debt Capital Markets, Inflation Linked Products and Swaps, and is a member of the RBA's Australian Foreign Exchange Committee. Over the past year, Mark contributed to the establishment of AFMA's Sustainable Finance and ESG Risk Forums and has been responsible for maintaining AFMA's Public Register of Statements of Commitment to the FX Global Code. Mark also holds primary responsibility for AFMA's engagement with existing and prospective members.

MURRAY REGAN

Director – Markets and Rates

Murray has responsibility for the management of select market committees and conventions, including Cash, Repo, Negotiable/Transferable Instruments (NCDs) and Interest Rate Options. In this role he ensures that AFMA's market conventions, standards, documentation and practices serve to promote market efficiency.

In addition, Murray is responsible for the Regulatory Reporting Committee which primarily represents the interests of foreign ADIs. He plays a key role in AFMA's ongoing relations with APRA and the RBA, and serves as AFMA's observer on ASX's BBSW advisory committee.

NIKITA DHANRAJ

Policy Manager

Nikita joined AFMA in January 2020 and is responsible for AFMA's policy and research work program for Sustainable Finance and Data Management. Nikita is the policy executive for AFMA's Accreditation Governance and Joint Faculty Committees which oversee the development of AFMA's accreditation program and address curriculum development matters for Macquarie University's education offering and provides secretariat support to AFMA's Professionalism Committee.

Nikita provides policy assistance in other areas such as information security, retail market issues, regulatory developments and financial market data. She also coordinates AFMA's communications function through the monthly newsletter and online engagement.

NATALIE THOMPSON (until September 2021)

Policy Manager

Natalie manages the operation of AFMA's energy market related committees, which set the trading protocols and conventions underpinning the efficient operation of wholesale OTC financial markets for electricity, gas and legislated environmental commodities in Australia. These include the Energy Governance Committee, Electricity Committee, Environmental Products Committee and Energy Regulatory Committee and related working groups.


Ricky DiCampli


May Huele


Jason Sheil


Lisa Aquino

Policy Team continued

Natalie is also involved with AFMA's Professionalism Committee and is policy executive for the Equities and Futures Compliance committees and Swap Dealers Forum.

Natalie has coverage of AFMA's energy markets related issues and assists the General Counsel with legal and compliance related matters.

RICKY DiCAMPLI
Policy Assistant

Ricky joined AFMA in 2021 initially as an intern. Ricky is involved in researching financial markets developments for publication in the monthly AFMA newsletter. This includes key regulatory and international updates whilst also sourcing sustainable finance updates. Ricky was retained in a new role as Policy Assistant in August 2021 following the conclusion of his internship where he began work on market data analysis and assists with the monthly AFMA newsletter. He also provides research assistance in AFMA's policy work on sustainable finance and data management. Ricky is also involved with assisting in the operation of committee and working group meetings.

MAY HUELE
Secretariat Manager

May is responsible for the efficient operation of AFMA committees and working groups, including the Board of Directors and other governance committees.

Education Team

JASON SHEIL
Accreditation Manager

Jason is responsible for maintaining and managing AFMA Accreditation and the annual reaccreditation process. Additionally, he is a key point of contact for both members and Macquarie University Business School in relation to the Financial Markets Certificate which is now utilised as the education benchmark for AFMA Accreditation.

LISA AQUINO
Publishing Manager

Lisa manages all aspects of production of learning materials for AFMA education and training programs, from desktop publishing duties, to liaising with printers and approving printers' proofs. In addition, Lisa develops and builds all online courseware and assessments, and has administrative responsibilities for the learning management system.

Anne Collins

Melinda Cunningham

Justin Gillfeather

Services Team

ANNE COLLINS

Office Manager – Accounts and ETC Administration & OTC Guide

Anne is responsible for the day-to-day office management and the management of accounts payable and receivable. In addition, Anne supports the administration of Education and is responsible for processing all education and training registrations. She also supports the OTC Guide products and client databases, and the grants process for the Financial Markets Foundation for Children. Anne supports the Financial Controller by ensuring all AFMA processes and procedures are adhered to.

MELINDA CUNNINGHAM

Business Information and Membership Officer

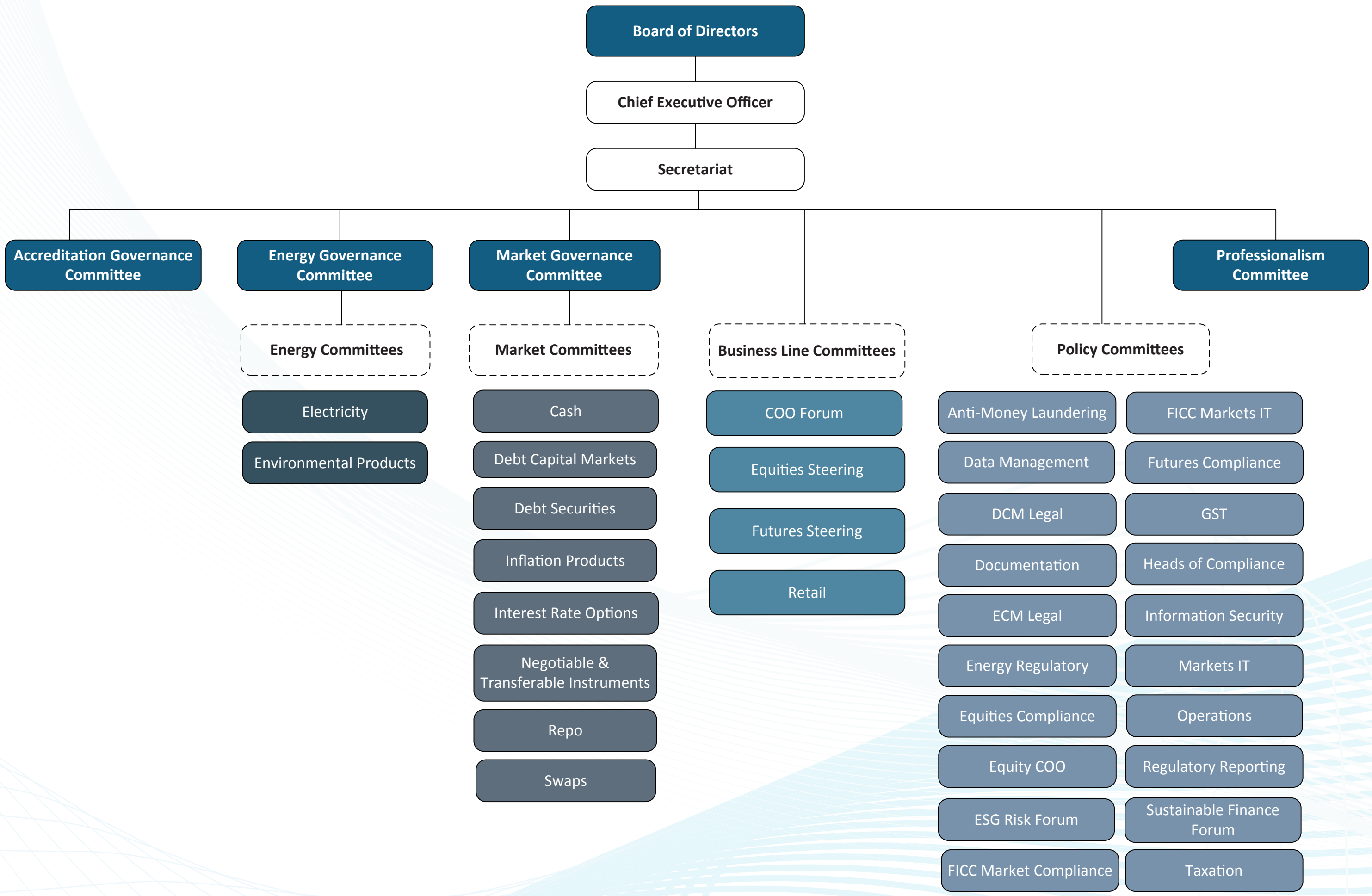
Melinda is responsible for the administration of AFMA's membership and business information functions. Melinda's responsibilities include engagement with current and prospective members about membership, maintenance of membership records, collation of member communications including marketing material and the coordination of the annual membership renewal process. Melinda also manages the subscription process for AFMA's OTC Guide.

JUSTIN GILLFEATHER

Senior Information Technology Manager

Justin is responsible for all information and communication technology within AFMA, including both internal and member-facing technologies, as well as acting as the Information Security officer.

AFMA COMMITTEES



AFMA GOVERNANCE (current at 30 June 2021)

Board of Directors

Robert Bedwell
JP Morgan Chase Bank, N.A. (Chair)

Andrew Hinchliff
Commonwealth Bank of Australia (Deputy Chair)

Simon Warner
AMP Limited

Shayne Collins
Australia and New Zealand Banking Group Limited

Karine Delvallée
BNP Paribas

Richard Gibb
Credit Suisse AG

Mary Reemst
Macquarie Group Limited

Richard Wagner
Morgan Stanley Australia Limited

Drew Bradford
National Australia Bank Limited

Greg Jarvis
Origin Energy

William Whitford
Treasury Corporation of Victoria

Nick Hughes
UBS AG, Australia Branch

Nell Hutton
Westpac Banking Corporation

Market Governance Committee

Anthony Robson
Yieldbroker Pty Limited (Chair)

Tony Togher
First Sentier Investors (Deputy Chair)

Rakesh Jampala
Australia and New Zealand Banking Group Limited

James Hayes
BNP Paribas

Luke Randell
Citi

Nadim Daban
Goldman Sachs Australia Pty Ltd

Guy Dickinson
HSBC Bank Australia Limited

Brook Thomas
ICAP Australia Pty Ltd

Bradley Castellano
JP Morgan Chase Bank, N.A.

Tim McCaughey
National Australia Bank Limited

Robert Kenna
NSW Treasury Corporation

Robert McCormack
Royal Bank of Canada

Andrew Kennedy
South Australian Government Financing Authority

Justin Lofting
Treasury Corporation of Victoria

Callum Macleod
Tullett Prebon (Australia) Pty Limited

Matthew Campbell
UBS AG, Australia Branch

Simon Masnick
Westpac Banking Corporation

2020/21 SUBMISSIONS

Significant Submissions include:

Indicative benefit legend: ● Direct costs savings ● Better regulation ● Better for business

Submission Issue	Policy Maker	Indicative Benefit		
Submission to the National COVID-19 Coordination Commission	National Covid Commission		●	●
Breach Reporting Draft Amendments	Treasury	●	●	●
Chi-X Hybrid Listing	Chi-X			●
VIC DELWP Shocks to VEEC Scheme Market	VIC Government		●	●
Engineering Registration Scheme	NSW Government		●	
Major Reforms to the Foreign Investment Framework	Treasury		●	●
Protecting Critical Infrastructure and Systems of National Significance	Home Affairs		●	●
Proposed changes to modernised Economic and Financial Statistics (EFS) reporting standards and guidance	APRA		●	
IOSCO Principles on Outsourcing	IOSCO			●
Major reforms to the Foreign Investment Review Framework (Regulations) September 2020	Treasury	●	●	●
MIR Tidy Ups and Client Money reforms	ASIC	●	●	●
AFMA letter on Bank Bill One Minute Trading Window	ASX			●
Industry consultation on financial products and the Personal Property Securities Act 2009	Attorney General's Department		●	
ESB P2025 Market Design Consultation Paper	Energy Security Board		●	●
Interim Report on Transmission Access Reform: Updated Technical Specifications and Cost-Benefit Analysis	Australian Energy Market Commission		●	●
Consultation on the use of Artificial Intelligence and Machine Learning	IOSCO		●	
AFMA letter on Regulator Accountability and Governance	Treasurer		●	
Consultation on Financial Planners and Advisers Code of Ethics Draft Guide	FASEA		●	
Consultation on the Data Availability and Transparency Bill 2020	Office of the National Data Commissioner		●	
Principles for Operational Resilience	Basel Committee on Banking Supervision		●	●
Foreign Investment Reform (Protecting Australia's National Security) Bill 2020 and Foreign Acquisitions and Takeovers Fees Imposition Amendment Bill 2020 [Provisions]	Senate Standing Committee on Economics	●	●	●
Consultation on Confidentiality of Key ADI Metrics	APRA		●	●
Exposure Draft Security Legislation Amendment (Critical Infrastructure) Bill 2020	Home Affairs		●	
Australia's AI Action Plan	Department of Industry, Science, Energy and Resources			●
ASX Clear Capital	ASX			●
Privacy Act Review	Treasury		●	

2020/21 SUBMISSIONS

Significant Submissions include:

Indicative benefit legend: ● Direct costs savings ● Better regulation ● Better for business

Submission Issue	Policy Maker	Indicative Benefit		
		Direct costs savings	Better regulation	Better for business
PMC Consultation Regulator Performance Framework	DPMC		●	
Fintech Regtech Committee - Second Issues Paper	Select Committee on Financial Technology and Regulatory Technology		●	●
CP 322 Affordable Advice	ASIC	●	●	●
Payments System Review	Treasury		●	
CP 333 Reference Checking and Information Sharing Protocol	ASIC		●	
ASX Clear Consultation on Trust Segregated Accounts	ASX		●	
CPS 511 Remuneration Standard	APRA		●	●
Market Data in The Secondary Equity Markets	IOSCO		●	●
Continuation of ASIC Class Order Margin lending relief for ASX-traded instalment warrants (CO 10/1034)	ASIC		●	●
CP 338 Remaking ASIC class order on parent entity financial statements	ASIC		●	●
CPS 226 Joint AFMA-ISDA submission on LIBOR transition discrepancies in timeliness of reconciliations	APRA		●	
Proposed amendments to Chapters 3, 6, 7 and 10 of the AML/CTF Rules (the Phase 1.5 Reforms)	AUSTRAC		●	
BBSW Fallbacks in RBA-Eligible Securities	RBA			●
CP 334 Joint AFMA-ISDA-GFMA submission to ASIC Review of Derivative Transaction Rules (Reporting) 2013	ASIC		●	
Report 668 Allocations in debt capital market transactions	ASIC		●	
CHESS Replacement: Proposed changes to netting and settlement workflow	ASX			●
Revisions to the capital framework for authorised deposit-taking institutions	APRA		●	●
Practical problems with FFSL applications – Letter	ASIC Commissioner	●	●	●
Draft Amendments to Breach Reporting Regulations	Treasury	●	●	●
Consultations on Modernising Business Registers (Director Identification Number Regime)	Treasury			●
VEU Program Stakeholder Engagement	VIC Government		●	
ASIC Cost Recovery Letter	ASIC	●	●	●
Draft Critical Infrastructure Asset Definition Rules	Home Affairs		●	
Your Future Your Super Exposure Draft Regulations	Treasury		●	●
Phase 1.5 Rules	AUSTRAC		●	
Greater Transparency of Proxy Advisers Consultation	Treasury		●	●
CP340 Guidance on Breach Reporting and Related Obligations	ASIC		●	
Energy Security Board Post-2025 Market Design Options Paper	Energy Security Board		●	●
APS 111 Capital Adequacy: Measurement of Capital	APRA		●	

AFMA MEMBERS (current at 30 June 2021)

Financial Markets Members

ABN AMRO Clearing Sydney Pty Limited
AGL Energy Limited
Alinta Energy
AMP Limited
Arab Bank Australia
Arcadia Energy Trading
Arrow Energy Trading Pty Ltd
Associated Foreign Exchange Australia Pty Ltd
ASX Limited
Aurora Energy Pty Ltd
Australia and New Zealand Banking Group Limited
Australian Office of Financial Management
Bank of America Merrill Lynch Australia
Bank of China Limited
Bank of Communications Co. Ltd Sydney Branch
Bank of Queensland
Barclays Bank PLC, Singapore Branch
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BNP Paribas
Canadian Imperial Bank of Commerce (Sydney Branch)
China Construction Bank, Sydney Branch
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CLSA Australia Pty Ltd
CMC Markets Asia Pacific
CME Group Australia Pty Ltd
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CS Energy Limited
DBS Bank Ltd
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Deutsche Bank AG
EnergyAustralia
ENGIE
Ergon Energy Queensland Pty Ltd
FIIG Securities Limited
Financial and Energy Exchange Ltd
First Sentier Investors
GFI Australia Pty Ltd
Goldman Sachs Australia Pty Ltd
Great Southern Bank
Greater Bank Limited
HSBC Bank Australia Limited
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ICAP Australia Pty Ltd
IG Markets Limited
IMC Pacific Pty Ltd
Industrial and Commercial Bank of China Limited
ING Bank (Australia) Limited
InterGen (Australia) Pty Ltd
Invast Financial Services
Investec Australia Limited
Jefferies (Australia) Pty Ltd
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LCH.Clearnet Ltd Sydney Branch
Macquarie Group Limited
Mizuho Bank Ltd
Moneytech Limited
Morgan Stanley Australia Limited
MUFG Bank, Ltd.
National Australia Bank Limited
Newcastle Permanent Building Society
Nomura Australia Limited
Northern Territory Treasury Corporation
NSW Treasury Corporation
OCBC Bank
OFX
Optiver Australia Pty Ltd
Origin Energy
Propex Derivatives Pty Ltd
QBE Insurance Group Limited
QIC
Queensland Treasury Corporation
Rabobank
Royal Bank of Canada
Shell Energy Australia Pty Ltd
Snowy Hydro Limited
Societe Generale
South Australian Government Financing Authority
Standard Chartered Bank
Stanwell Corporation Limited
State Street Bank and Trust Company
Sumitomo Mitsui Banking Corporation, Sydney Branch
Suncorp Metway Ltd
Susquehanna Pacific Pty Ltd
Tasmanian Public Finance Corporation
TD Securities
Teachers Mutual Bank Limited
The Northern Trust Company
Tibra Trading Pty Ltd
Toyota Finance Australia Limited
Treasury Corporation of Victoria
Tullett Prebon (Australia) Pty Limited
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United Overseas Bank Limited
Western Australian Treasury Corporation
Western Union Business Solutions
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ICE Data Services Australia
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Affiliate Members

Australian Energy Market Operator Ltd
Clean Energy Regulator
International Capital Market Association
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AFMA would like to thank its partner members for their ongoing support:

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AFMA would like to welcome the following new members for 2020/21:

Barrenjoey

Partnering with BARCLAYS

CIBC

Jefferies

MINTEGRITY

AFMA was proud to welcome CIBC as a new member.

ABOUT AFMA

The Australian Financial Markets Association (AFMA) is a member-driven and policy focused industry body that represents participants in Australia's financial markets and providers of wholesale banking services. AFMA's membership reflects the spectrum of industry participants including banks, brokers, market makers, energy traders, market infrastructure providers and treasury corporations.

Well-functioning financial markets are critical to good economic performance. AFMA pursues the policy and industry conditions that best enable financial markets to support a healthy economy by:

- Advocating policies and regulation that support development of the financial markets and user confidence in them;
- Encouraging responsible conduct and efficient markets through industry codes, conventions, guides and preparing and maintaining standard documentation; and
- Promoting high professional standards through an accreditation program.

AFMA covers industry issues affecting the front, middle and back office functions of members. This includes matters concerning dealing, advising and operations for both the over-the counter (OTC) and exchange markets for securities and derivatives.

Policy advocacy and industry representation

AFMA seeks to promote efficient regulation that inspires investor confidence in our markets. Our approach is built on constructive engagement with politicians and a credible approach to policy and regulatory matters. The Government and regulators regularly seek AFMA's views on public policy matters relevant to the financial markets.

The financial regulators oversee the day-to-day operation of the financial markets by administering government policy. AFMA has a unique relationship with the regulators that can handle a contest of ideas and views when necessary and is founded in a common interest in the efficient delivery of regulatory objectives.

Promoting market efficiency and integrity

AFMA underpins official regulation by developing and promoting industry standards and guidance that support efficient and ethical practices across all our financial markets.

In addition, AFMA's conventions and standard documentation for the OTC markets are widely accepted, covering both front office activities and the operational aspects of financial transactions.

Promoting market professionalism

AFMA encourages high standards of professional conduct in financial markets by delivering an industry-led accreditation program to improve individual expertise in OTC and exchange-traded markets. AFMA accords accreditation, which enjoys widespread industry acceptance, to individuals who achieve the required levels of competence.

Industry leadership

AFMA's strategy is set by a Board comprising industry leaders at CEO level. The advocacy, industry standards and conventions processes are supported by member firms though our committees. They regularly assess suitability of the policy and regulatory settings for our financial markets and the degree of professionalism exhibited by market participants. ■

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