



Media Release

Survey of the OTC Derivatives Market in Australia

Friday 22 May 2009

The *Survey of the OTC Derivatives Market in Australia* released today by APRA, ASIC and the RBA is a comprehensive appraisal of the OTC markets. AFMA agrees with a key observation of the Survey – that Australia's OTC markets have remained robust during the global financial crisis with greater attention paid to the management of operational, credit and market risks. While there is room for further enhancement of OTC market processes, importantly, the Survey has not revealed any significant gaps in the regulation of our OTC derivatives markets or any serious weaknesses in the infrastructure that supports them.

In general, the report reinforces AFMA's view that the Australian OTC markets have remained orderly and have shown resilience and integrity during a period of great strain in global financial markets. We believe this is the result of the balanced character of our OTC derivatives markets, Australia's more comprehensive system of regulation and our market infrastructure, including market conventions and standard documentation.

The Australian markets have not experienced the same urgent challenges that some overseas financial markets have encountered, so regulators and industry here have had the opportunity to carefully consider best practice improvements. The Australian regulators and industry will need to take into account measures that are being considered in other jurisdictions, and where necessary, adopt measures in a way that best suit the characteristics of the local markets.

AFMA will take up the invitation from the Australian regulators to work with them on the seven areas identified in the Survey where further enhancements can be made. These will be in the context of changes currently being considered in major global markets as governments, regulators and industry address the lessons of the global financial crisis. As identified in the Survey, these include market transparency, standard documentation, credit risk management, access to central clearing counterparties and greater automation as appropriate to the needs of our markets.

In responding to regulatory changes in global markets, Australia should preserve its advantages as a relatively small but flexible, adaptive and well regulated financial market, building on its substantial strengths which have helped shield our markets from the worst effects of the financial crisis.

AFMA is the industry association that represents participants in Australia's financial markets which turned over \$120 trillion in 2007/08, of which the OTC derivatives market accounted for \$80 trillion.

AFMA, through its extensive committee structure, provides an industry forum for the continuing development and refinement of OTC market dealing and operational standards. Its Market Governance and Operations Committees provide oversight of that

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development and refinement. AFMA assists the effective functioning of the OTC markets by:

- Providing standard documentation – the *Guide to Australian OTC Transactions* which supplements and customises various international master agreements, including that of the International Swaps and Derivatives Association (ISDA®). The *Guide* also contains extensive material on collateral (including use of the ISDA Credit Support Annex).
- Publishing via *AFMAdata* a range of daily OTC market data which provide pricing and revaluation reference rates.
- Compiling the annual *Australian Financial Markets Report*, the only comprehensive analysis of Australian OTC market turnover.
- Conducting the *Financial Markets Accreditation Program*, a competency qualification currently held by more than 2,000 market professionals.
- Working with counterparts on global regulation via the International Council of Securities Markets Associations (ICSA) where AFMA is represented on all ICSA committees and chairs the Standing Committee on Regulatory Affairs. AFMA also maintains effective bilateral working relations with leading associations including LIBA (UK), SIFMA (US) and JSDA (Japan) as well as ISDA.

AFMA's organisational structure and objectives provide the necessary basis from which further OTC market enhancements can be developed, promoted and implemented by the full range of wholesale market participants. Thus, AFMA is well placed to respond to objectives for market development that our regulators and the industry itself seek to achieve.

We expect the international work currently being undertaken by the International Organisation of Securities Commissions (IOSCO), through its Taskforce on Unregulated Financial Markets and Products, to provide additional guidance on potential improvements to our OTC derivatives markets. The high profile role that ASIC plays as co-chair of the Taskforce demonstrates the recognition that the rest of the world gives to Australia's well regulated financial system.

Notes for Editors:

Australian Financial Markets Association (AFMA):

The Australian Financial Markets Association is the peak industry association for Australia's wholesale banking and financial markets. These markets play a pivotal role in the Australian economy by making it possible for Australian financial institutions and companies to conduct business with each other and with their counterparts overseas.

AFMA represents industry participants in the wholesale banking and financial markets, including Australian and foreign banks, securities companies, state government treasury corporations, fund managers, traders in electricity and other specialised markets and industry service providers.

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