



19 October 2018

Dr Kerry Schott AO
Energy Security Board
By email: info@esb.org.au

Dear Dr Schott

Market Making Requirements in the NEM Consultation Paper

The Australian Financial Markets Association (AFMA) welcomes the opportunity to provide comment to the Energy Security Board (ESB) on the Market Making Requirements in the NEM Consultation Paper (“consultation paper”).

AFMA is the leading industry association promoting efficiency, integrity and professionalism in Australia's financial markets. AFMA represents the common interests of its members in dealing with issues relevant to the good reputation and efficiency and competitiveness of wholesale banking and financial markets in Australia. AFMA has more than 120 members reflecting the broad range of participants in financial markets, including Australian and international banks, leading brokers, securities companies, fund managers, energy companies and industry service providers.

As the national association for participants in the wholesale financial markets, AFMA has established trading protocols and developed standard contract documentation, as well as providing market information, dealer accreditation, training and other services to facilitate the efficient operation and development of the electricity financial markets.

Whilst acknowledging the overall objectives of the consultation paper, AFMA's focus is on the efficiency and competitiveness of electricity financial markets. Accordingly, our comments are limited to those areas that relate to this focus. As we represent a broad range of participants in the financial markets, we also limit our comments to those in which we believe we express a commonly held viewpoint amongst our member base. We expect that many of our members will provide you with submissions of their own on specific issues.

We note also the very short turnaround time (3 weeks) in which this consultation is taking place, which limits our ability to collect member feedback and fully ascertain and represent our members' collective viewpoints.

We also note the similarity of this consultation paper and elements of the reliability requirement contained in the ESB National Energy Guarantee – Draft Detailed Design Consultation Paper (the “NEG consultation paper”) to which we made a submission in July 2018. Consequently, we re-iterate some of the views that were in our NEG consultation paper submission.

Detailed elements of Recommendation 7

The consultation paper is primarily seeking feedback on more detailed elements of the Market Liquidity Obligation / ACCC's recommendation 7. This occurs in Section 2 (Triggering), Section 3 (Identifying Obligated Parties), and Section 4 (Market making Requirements).

AFMA believes that members' views in these areas will likely be mixed, and individual members will likely submit their own views on these questions. We also consider that alternatives discussed in Section 5 (Satisfying the obligations) need to be given due consideration before many of these detailed questions can be answered. Hence we have focused our response on Section 5.

Section 5 - Satisfying the obligations

The consultation paper suggests that an alternative, formalised market-making arrangement which has similar terms, or terms that have a more beneficial effect on liquidity than the MLO, could be a workable solution.

A core objective of AFMA is to promote and facilitate the development and maintenance in Australia of efficient and competitive markets for financial instruments and other related transactions, and we are generally supportive of moves to encourage market liquidity in electricity derivatives.

However, and as noted in our response to the NEG consultation paper, our members have expressed a desire for a flexible approach toward determining market liquidity solutions, such as the alternative, formalised market-making arrangement suggested in the consultation paper.

A number of members have expressed a preference for a market liquidity mechanism that does not involve compulsion, noting a mechanism that provides incentives for market making would be preferred. Hence, a market participant-lead solution to provide liquidity could be considered, with a compulsory liquidity obligation as a fallback process.

There are a number of alternative mechanisms that are likely to be able to provide additional contract liquidity in South Australia, and these should be explored more fully.

Yours sincerely

A handwritten signature in black ink, appearing to read "M. Chadwick". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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