

Australia's Financial Markets



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Introduction

Australia has become a leading Asia-Pacific financial centre by virtue of its dynamic capital and financial markets. The nation has the region's –

- largest stock market (ex-Japan) measured by free-float market capitalisation
 - largest international debt securities market
 - largest funds management industry
 - largest hedge funds industry, deploying the widest range of investment strategies
 - largest REITs (Real Estate Investment Trusts) market
 - largest pension fund industry (ex-Japan)
 - and fastest growing foreign exchange market.
-

Australia's attractiveness as a regional financial centre is supported by a sizeable domestic market. The nation has the fourth largest economy in Asia Pacific (after Japan, China and India). Its finance and insurance industries generate around 8.1 per cent or A\$82 billion in real gross value added to the nation's annual GDP.¹

These deep and diverse markets have attracted global institutions and service providers to establish operations in Australia. Access to the nation's highly skilled workforce, advanced business and IT infrastructure, sound regulation and enviable lifestyle, have enabled these participants to capture both domestic and regional opportunities in the financial markets. Of note is Australia's diverse multilingual population that enhances the nation's regional positioning. 1.4 million Australians speak an Asian language,² equivalent to around one third of the population of Singapore, and one fifth of the population of Hong Kong.

¹ Australian Bureau of Statistics (ABS), cat. no. 5206.0, *National Income, Expenditure and Product*, March Quarter 2009, Time Series Workbook, Table 6.

² ABS, cat. no. 2068.0, 2006 Census Tables, *2006 Census of Population and Housing*.



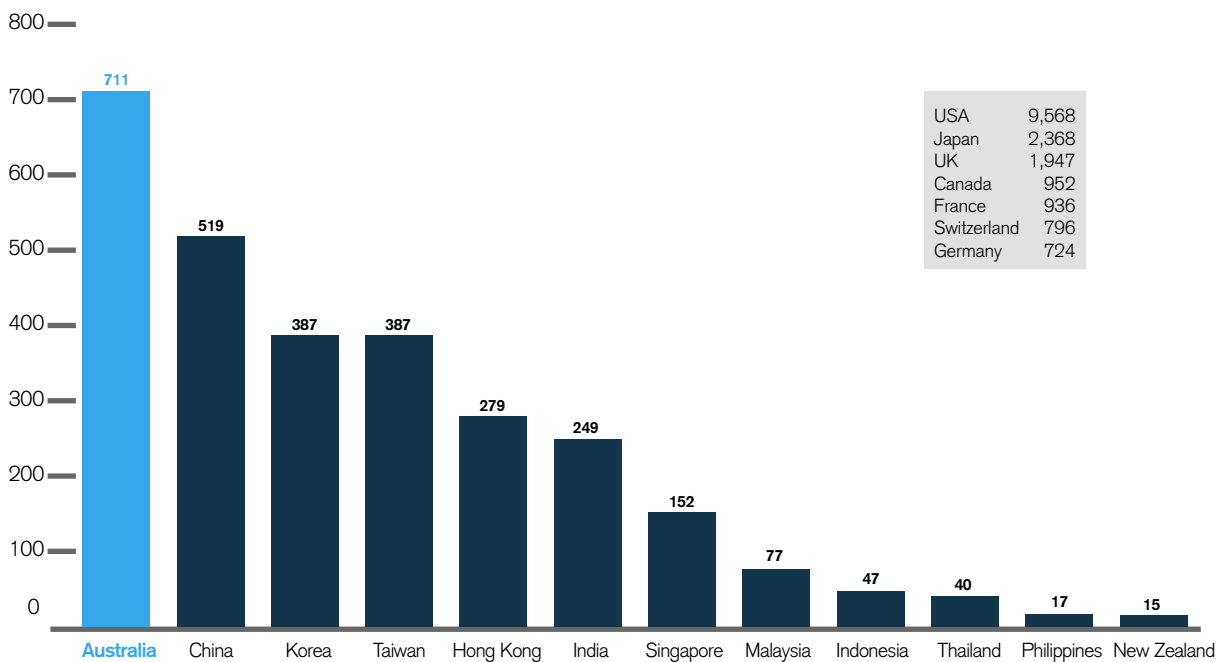
Australia's Equity Market

The largest in Asia

Australia's equity market is the largest in Asia (ex-Japan) and ranks eighth in the world, based on free-float market capitalisation, a measure that reflects the true market size available to investors.³ The Australian market is more than twice the size of Hong Kong's and four times larger than Singapore's market.

SIZE OF KEY MARKETS IN THE ASIA-PACIFIC REGION

Market Capitalisation of Floating Stocks (US\$ Billion, 30 June 2009)



Sources: Standard & Poor's, *World by Number Monthly Report*, June 2009; Austrade

³ Standard & Poor's, *Float Adjustment Methodology*, August 2006. Standard & Poor's capitalisation-weighted indices are float adjusted. Under float adjustment, the share counts used in calculating the indices reflect only those shares available to investors rather than all of a company's outstanding shares. Float adjustment excludes shares that are closely held by control groups, other publicly traded companies or government agencies.

A broad and sophisticated investor base

Australia's financial markets are deepened by an active investment community that includes a growing investment fund, pension fund, and hedge fund industry, as well as a sophisticated retail investment sector.

Investment funds

The nation's funds management industry has A\$1.2 trillion in assets⁴. The industry has more than doubled in size over the past decade.

AUSTRALIA'S INVESTMENT FUNDS (CONSOLIDATED ASSETS, A\$ BILLION)

At the end of	By Type of Institution				
	Total ¹	Superannuation Funds	Life Insurance Offices ²	Public Unit Trusts	Other ³
March 1989	167.5	63.5	65.2	22.9	15.9
March 1994	281.5	117.3	111.3	33.2	19.7
March 1999	502.8	214.6	159.8	88.7	39.7
March 2004	732.8	361.7	169.8	157.7	43.5
March 2009	1,169.0	704.8	157.5	250.7	56.1

1 Total may not add up due to rounding.

2 Figures include superannuation funds held in statutory funds for life insurance offices.

3 The combined assets of cash management trusts, common funds and friendly societies.

Sources: Australian Bureau of Statistics (ABS), cat. no. 5655.0, *Managed Funds Australia*, Table 1, Time Series Workbook; Austrade

The solid growth in funds under management has resulted in Australia having one of the world's largest contestable investment pools. While differences in coverage and definitions make precise cross country comparison of investment markets difficult, a global survey of mutual funds conducted by the Investment Company Institute (ICI) ranked Australia as having the fourth largest onshore managed funds market in the world (after the USA, Luxembourg and France) in December 2007 and the largest in the Asia-Pacific region.

ASIA-PACIFIC TOTAL NET ASSETS OF INVESTMENT FUNDS¹ (US\$ BILLION)

	2000	2007	% of Total
Australia	342.0	1,193.0	26.6
Hong Kong	195.9	818.4	18.2
Singapore ²	159.5	813.9	18.1
Japan	432.0	714.0	15.9
China	N/A	434.1	9.7
South Korea	110.6	330.0	7.3
India	13.5	108.6	2.4
Taiwan	32.1	58.3	1.3
New Zealand	7.8	14.9	0.3
Pakistan	N/A	5.0	0.1
Philippines	0.1	2.1	0.0
Asia-Pacific Total	1,293.5	4,492.2	100.0

1 Refers to data that includes home-domiciled funds, except for Hong Kong, Korea, and New Zealand, which include home- and foreign-domiciled funds. Funds of funds are not included. In this statistical release 'investment fund' refers to a publicly offered, open-end fund investing in transferable securities and money market funds. It is equivalent to 'mutual fund' in the US and "UCITS" (Undertakings for the Collective Investment of Transferable Securities) in Europe.

2 Singapore's figures are sourced from the Monetary Authority of Singapore, *Singapore Asset Management Industry Survey*.

Sources: Investment Company Institute, European Fund and Asset Management Association, and other national mutual fund association; Austrade

4 ABS, cat. no. 5655.0 *Managed Funds*, March 2009.

The top 20 asset managers (by assets under management) are listed below.

TOTAL FUNDS UNDER MANAGEMENT CONSOLIDATED ASSETS (A\$ MILLION)

Manager Name	31 Dec 2008
Commonwealth/Colonial Group	94,268
Macquarie Bank Group	68,376
State Street Global Advisors	62,854
AMP Group	59,381
Vanguard Investments Ltd	53,572
ING Investment Management	47,579
AXA Australia/AllianceBernstein	40,370
BT/Westpac Group	34,559
Barclays Global Investors Australia	31,338
Perpetual Ltd	23,443
PIMCO	19,661
Challenger Financial Services Group	19,257
BNY Mellon Asset Management Aust Ltd	18,189
Industry Funds Management Ltd	16,027
IOOF/Perennial Group	15,626
BNP Paribas Asset Management (Aus) Ltd	14,940
Platinum Asset Management	14,232
Credit Suisse	14,156
UBS	13,978
BlackRock Investment Management	13,971

Sources: Investor Supermarket Market Wrap, December 2008; Austrade

Pension funds

Australian pension funds (referred to locally as 'superannuation' or 'super' funds) are major participants in the capital and financial markets.

As at December 2008, there were 474 institutional pension funds controlling A\$681 billion in assets, equating to an average asset base of A\$1.44 billion per fund.

AUSTRALIA'S SUPERANNUATION INDUSTRY – DECEMBER 2008

	Assets (A\$ Billion)	Number of Entities
By fund type		
Corporate	53.6	199
Industry	181.1	66
Public sector	149.4	40
Retail	297.1	169
Sub total	681.3	474
Pooled superannuation trusts	68.2	86
Small APRA funds	2.6	4,433
Single-member approved deposit funds (ADFs)	0.1	120
Self-managed super funds ¹	326.4	401,366
Balance of life office statutory funds	43.2	–
Total²	1,053.5	406,479

¹ Estimated data on self-managed superannuation funds are provided by the Australian Taxation Office (ATO).

² Total assets does not include pooled superannuation trusts.

Sources: Australian Prudential Regulation Authority (APRA) Statistics, *Quarterly Superannuation Performance*, December 2008 (issued 26 March 2009); Austrade

The nation's pension fund industry grew at a 12 percent CAGR over the 10 years to 31 December 2008⁵. This growth rate is the fastest of 11 major pension fund industries studied.

GROWTH OF MAJOR PENSION MARKETS

Selected Markets	Growth Rates to 2008e (local currency) 10 year % CAGR (31 Dec 98 to 31 Dec 08)	Pension Fund Assets (US\$ Billion) 2008e
Australia	12.0	718
Hong Kong	10.4	57
Japan	-0.7	2,731
UK ¹	5.6	1,746
USA ²	3.3	12,439

CAGR = Compound Annual Growth Rate

1 Excludes Personal and Stakeholder defined contribution (DC) Assets.

2 Includes Individual Retirement Accounts (IRAs).

Sources: Watson Wyatt, *2009 Global Pension Assets Study*, pages 6 and 12; Austrade

Over the next decade, the total value of Australia's pension funds under management is expected to more than double and Australia will remain the largest pension market of the nine Asian economies surveyed.⁶

Other institutional investors

Australia's insurance industries comprise of 159 entities managing A\$307 billion in assets.⁷

A new and significant institutional investor is the Future Fund, an Australian Government fund that began investing in mid-2007. The fund has A\$59.6 billion in assets (as at Dec 2008) making it one of the largest institutional investors in the region.

The twenty largest Australian institutional investors are listed below.

Rank	Fund Name	Fund Type	Net Assets (A\$ Million)
1	Future Fund	Non-Super	51,970 ¹
2	VFMC	Fund of Funds	36,350
3	NAFM	Non-Super	35,846
4	State Super-NSW	Super-Gov	34,214
5	AMP Future Directions	Fund of Funds	30,395
6	AustralianSuper	Super-Ind Public Offer	29,267
7	MLC Masterkey	Master Fund	27,587
8	QSuper	Super-Gov	25,018
9	QBE	Non-Super	24,606
10	QIC	Fund of Funds	23,359
11	UniSuper	Super-Ind	23,198
12	ING	Non-Super	23,005
13	Russell Multi Mgr Funds	Fund of Funds	21,464
14	STA	Merged Fund	21,148
15	PSS/CSS, ARIA	Super-Gov	17,420
16	ESSS	Super-Gov	17,297
17	MLC Masterkey (ND)	Fund of Funds	17,206
18	FSS-NSW	Super-Gov Public Offer	15,487
19	REST	Super-Ind Public Offer	14,537
20	NZSF	NZ Super	14,212

1 A\$59.6 Billion when including three other government funds that are also managed by the Future Fund.

Source: InvestorSuperMarket. Report date of net assets varies depending on source – Most range from 30 June 2008 to 31 December 2008 but earlier report dates are also used.

⁵ Watson Wyatt, *2009 Global Pension Assets Study*, pages 6 and 12. The other 10 markets studied were: Hong Kong, Japan, US, UK, Canada, France, Germany, Ireland, Netherlands and Switzerland.

⁶ Allianz Global Investors, *Asia-Pacific Pensions 2007, System and Markets*. The nine economies surveyed were: Australia, Japan, China, South Korea, India, Singapore, Hong Kong, Thailand and Taiwan.

⁷ APRA Statistics, *Quarterly General Insurance Performance Statistics*, December 2008 (issued 19 March 2009), Tables of Key Statistics and Table 1 and *Quarterly Life Insurance Performance*, December 2008 (issued 1 April 2009), Tables of Key Statistics and Table 1a.

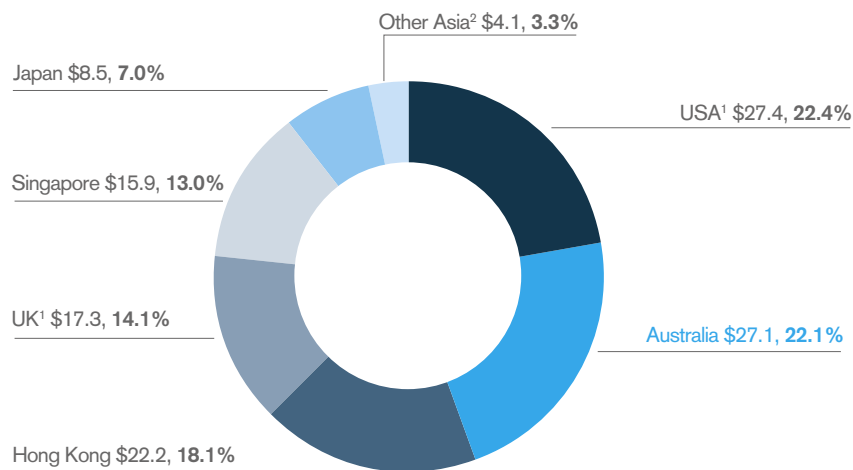
Hedge funds

Another growing financial sector is Australia's hedge funds industry. Assets under management reached US\$27 billion⁸ in December 2008, making the industry the largest hedge fund centre in Asia.

More than two-thirds of Australia's hedge fund assets are deployed in markets outside the country – demonstrating the industry's international sophistication.⁹

ASIA-PACIFIC HEDGE FUND ASSETS UNDER MANAGEMENT

US\$ Billion, December 2008



¹ Deploying hedge fund strategies in Asian Markets.

² Other countries deploying hedge fund strategies in Asian Markets.

Sources: Asiahedge; Austrade

Professional retail investment sector

An active retail investing/trading population has broadened the range and number of participants in the nation's financial markets. Australia has one of the world's highest percentages of individuals with direct and indirect exposures in the stock market.¹⁰

Anecdotally, retail traders have established Australia as the largest Contract for Differences (CFD) market outside the UK, and are active participants in the nation's flourishing warrants, stock options, futures, margin equities and margin FX markets.

A reflection of the size and sophistication of the retail investor market is the existence of more than 401,000 self-managed pension funds, worth a combined A\$326 billion.¹¹

These funds, each with an average of A\$813,000 in assets, are typically established by high net worth individuals as their private pension fund, allowing them to take responsibility for investment decisions.

Domestic institutional and retail investors hold 39 per cent and 26 per cent of securities in the Australian Securities Exchange (ASX) market respectively. International institutions account for the remaining 35 per cent.¹²

⁸ Data sourced from Asia Hedge. Manager assets only, excluding fund of hedge funds and Australian investor allocations to offshore managers.

⁹ Further details can be found in the Department of Innovation's publication, *The Hedge Funds Industry in Australia 2007*. The growth of the hedge funds industry has also led to a vibrant securities lending market in Australia.

¹⁰ Australian Securities Exchange (ASX), *2008 Australian Share Ownership Study* (released 23 June 2009), page 34.

¹¹ See previous table in this report; *'Australia's Superannuation Industry – December 2008'*.

¹² Australian Securities Exchange, Fact Sheet 27 March 2006.

Diverse range of listed securities

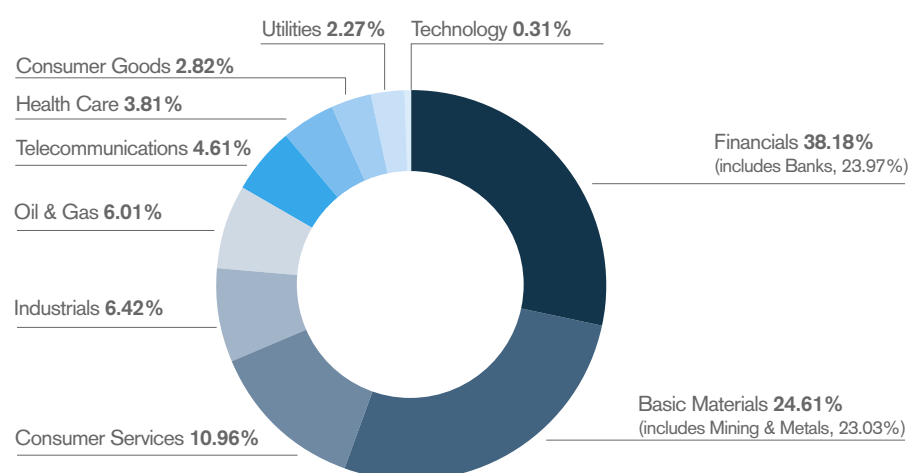
Australia's world renowned mining/metals and energy/utilities sectors account for 23.0 per cent and 8.3 per cent respectively of ASX's market capitalisation. This significant weighting has led to a sizeable industry providing commodity-focussed investment banking, treasury, funds management and risk advisory services.

The emergence of new and more sophisticated asset classes such as real estate investment trusts (REITs), referred to as Listed Property Trusts (LPTs) in Australia, and securitised infrastructure have also added considerably to the ASX's depth, providing more opportunities for investing and trading. Australia's REIT market is the largest in Asia. [see page 19 of this report]

Other ASX listed products includes listed investment funds, exchange traded funds, and exchange traded commodities.

MARKET CAPITALISATION OF AUSTRALIA'S STOCK MARKET BY INDUSTRY SECTOR

As at 30 June 2009



Sources: Bloomberg, S&P/ASX 200 Index; Austrade

Equity derivatives

The ASX offers a wide range of equity derivative products, including index futures and options on index futures, contracts for difference (CFDs), single stock options, index options, and Low Exercise Price Options (LEPOs). The ASX is the first exchange in the world to launch listed CFDs.

ANNUAL TURNOVER OF AUSTRALIAN EQUITY AND EQUITY DERIVATIVE MARKETS

	Turnover 2007-08 (A\$ Billion)	Percentage change from previous year
Physical Market		
ASX Shares	1,605	22.1
Derivative Market		
SFE Equity Futures and Options	1,383	26.2
ASX Options	583	18.6
OTC Equity Derivatives	105	8.3
Sub Total	2,071	22.9
Total Equities Market	3,676	22.6

Sources: Australian Financial Markets Association, 2008 Australian Financial Markets Report, page 3; Austrade

The ASX also has a well established warrants market offering a wide range of products designed as either leveraged long-term investments or as trading instruments.

Major brokers/dealers

Australia's dynamic primary and secondary equity market has attracted major global stockbroking firms. According to IRESS Market Technology, the top 10 securities broking/trading participants account nearly three quarters by value of business traded.

MARKET SHARE BY VALUE OF STOCKS TRADED

Broker:	Market Share Traded %
UBS	10.23
Macquarie Institutional	9.96
Citigroup	8.13
Deutsche	7.78
Credit Suisse	7.42
GSJBWere	7.28
RBS	6.47
Merrill Lynch	6.39
JPMorgan	5.40
Morgan Stanley	4.55
Total Top 10	73.61

Source: IRESS Market Technology. Data for calendar year 2008 Rounded

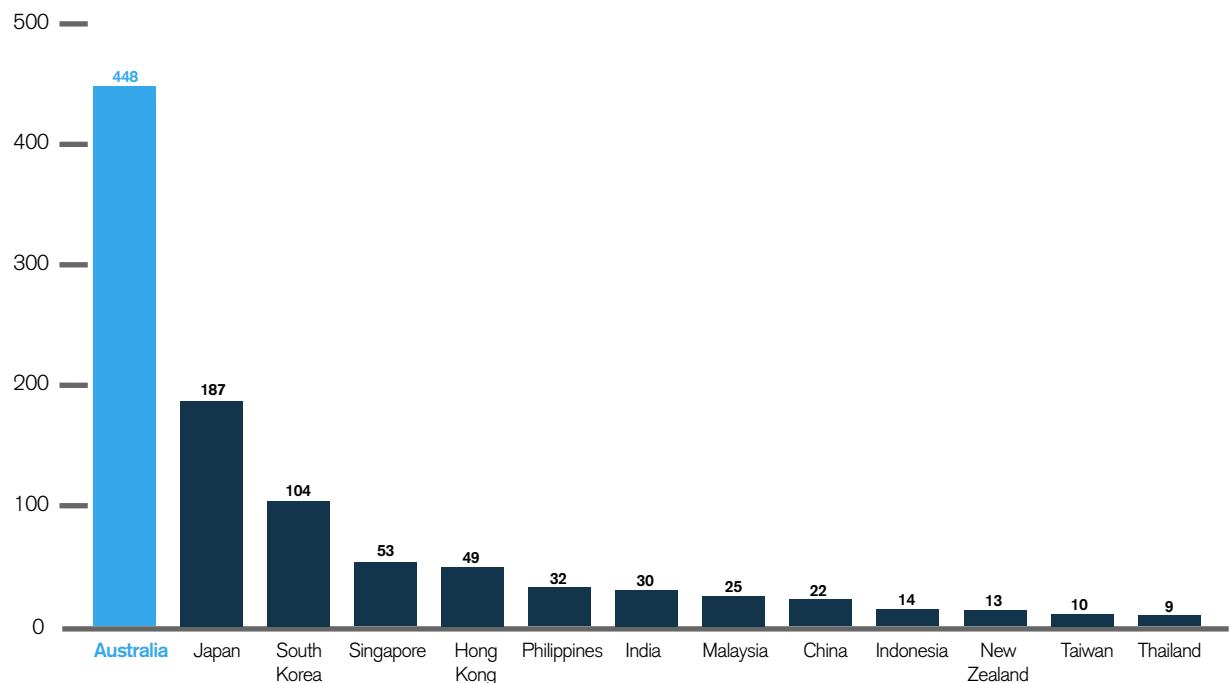
Australia's Debt Securities Market

Asia's largest international debt securities market

Australia's international debt securities market is by far the largest in Asia, providing a range of opportunities in debt issuance, investment and trading.

INTERNATIONAL DEBT SECURITIES MARKETS – AMOUNTS OUTSTANDING (US\$ BILLION)

December Quarter 2008



Sources: Bank for International Settlements, *BIS Quarterly Review*, June 2009, Tables 11; Austrade

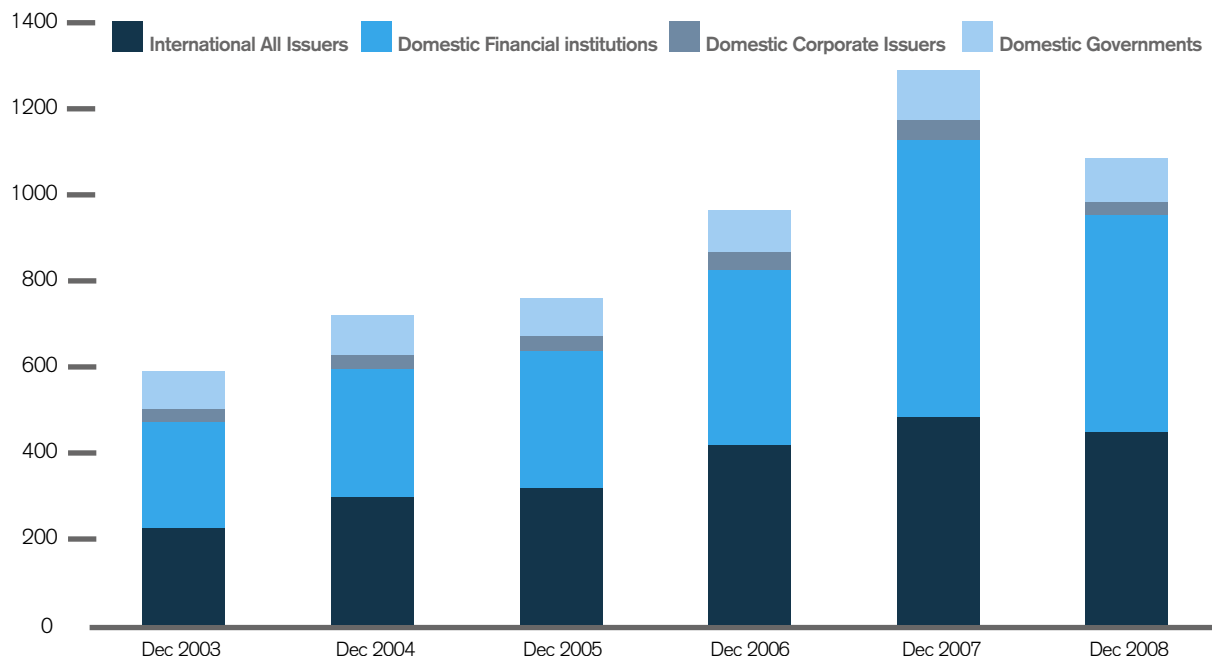
According to the Bank for International Settlements¹³, 'Four characteristics mark what is now a thoroughly internationalised Australian dollar bond market: its grounding in the domestic fixed income market; the demand for quality among international investors in Australian dollar paper; the importance of the cross-currency swap market; and the importance of yield to international investors.'

¹³ Bank for International Settlements, *BIS Quarterly Review*, December 2006.

Growth and liquidity

Australia's debt market has more than doubled in size since 2003. This growth has largely come from the non-government sector, providing a wider range of client and credit-related opportunities for participants. However, the recent global financial turmoil is resulting in increased government bond issuance, which will further boost the size and liquidity of Australia's debt markets.

AUSTRALIA'S DEBT SECURITIES – AMOUNTS OUTSTANDING (RESIDENCE OF ISSUER, US\$ BILLION)



Sources: Bank for International Settlements, *BIS Quarterly Review, June 2009*, Tables 11 & 16A; Austrade

Interest rate derivatives such as repurchase agreements (repos), swaps, forward rate agreements (FRAs), interest rate options, interest rate futures and credit derivatives are also actively traded in Australia.

ANNUAL TURNOVER IN AUSTRALIA'S DEBT SECURITIES & DERIVATIVES MARKETS

	Annual Turnover, 2007-08 (A\$ Billion)
Negotiable and Transferable Instruments	5,871
Government Debt Securities	716
Non-government Debt Securities	637
Sub Total (physical)	7,224
SFE ¹ Interest Rate Futures and Options	38,228
Repurchase Agreements	10,353
Swaps	7,945
Forward Rate Agreements	5,833
Interest Rate Options	425
Credit Derivatives	255
Sub Total Derivatives	63,039
Total Debt Markets	70,263

¹ SFE (originally Sydney Futures Exchange) is a division of the ASX.

Sources: Australian Financial Markets Association, *2008 Australian Financial Markets Report*, page 3; Austrade

Futures and options

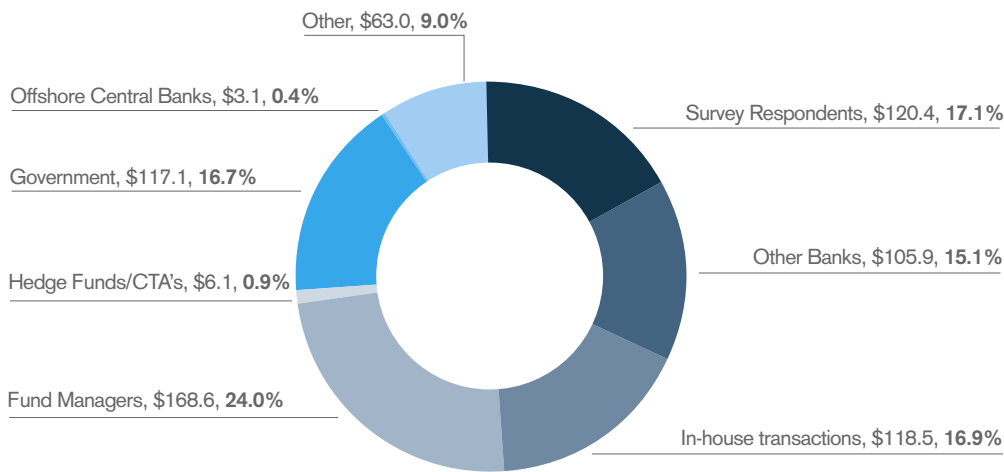
A significant part of the interest rate derivatives market consists of the SFE's interest rate futures and options contracts based on 30 Day Interbank Cash, 90 Day Bank Bills, and 3 Year and 10 Year Treasury Bonds. The SFE (which is a division of the ASX), offers one of the region's largest interest rate futures and options markets.

SFE's 3 Year Treasury Bond futures contract is ranked as the most active interest rate futures contract in Asia. It is ranked 18th worldwide, ahead of Tokyo Financial Exchange's Euroyen futures contract, which is ranked 20th.¹⁴

Participants

Participants in Australia's debt securities market include domestic and international banks, fund managers, hedge funds and government entities. Transactions in government and non-government debt securities markets are executed over the phone and on electronic trading platforms.

FIXED GOVERNMENT DEBT SECURITIES ANNUAL TURNOVER (A\$702.7 BILLION) – 2007-08



Sources: Australian Financial Markets Association, 2008 Australian Financial Markets Report, page 11; Austrade

¹⁴ Futures Industry Association, 2008 Volume Data and Ranking <http://www.futuresindustry.org/fi-magazine-home.asp?a=1313>

Australia's Foreign Exchange Market

Fastest growing in Asia

Since the Australian dollar was floated in December 1983, Australia's Foreign Exchange (FX) market has grown significantly to be one of the most liquid, globally integrated markets in the world.

Australia's FX market is the seventh largest in the world, the Australian dollar is the sixth most traded currency and the A\$/US\$ is the fourth most traded currency pair globally.¹⁵ According to the latest BIS Triennial Survey, Australia is the fastest growing FX market among the top 10 FX centres, and its rate of growth far exceeds that of Singapore and Hong Kong.

In December 2008, Australia's FX daily turnover averaged A\$190 billion¹⁶, of which non-Australian dollar transactions accounted for around 55 per cent.

FOREIGN EXCHANGE MARKET TURNOVER¹ – DAILY AVERAGES IN APRIL

Rank	Country	1995		2007		% Change 1995 to 2007
		US\$ Billion	% Share	US\$ Billion	% Share	
1	UK	464	29.5	1,359	34.1	193
2	USA	244	15.5	664	16.6	172
3	Switzerland	87	5.5	242	6.1	178
4	Japan	161	10.3	238	6.0	48
5	Singapore	105	6.7	231	5.8	120
6	Hong Kong	90	5.7	175	4.4	94
7	Australia	40	2.5	170	4.2	325
8	France	58	3.7	120	3.0	107
9	Germany	76	4.8	99	2.5	30
10	Denmark	31	2.0	86	2.2	177
	Other	216	13.7	605	15.2	180
	Total²	1,572	100.0	3,989	100.0	154

¹ Adjusted for local double-counting ("net-gross"). Estimated coverage of the foreign exchange market ranged between 90% and 100% in most countries.

² Total is the sum of 54 surveyed countries' daily FX market turnover. Total may not add up due to rounding.

Sources: Bank for International Settlements, *Triennial Central Bank Survey of Foreign Exchange Derivatives Market Activity in April 2007*; Austrade

Wide range of currency pairs and FX products traded

The A\$/US\$ has become the world's fourth most actively traded currency pair. Yet, within Australia, the A\$/US\$ pair accounted for only 38.7 per cent of spot FX turnover, while non A\$ currency pairs accounted for the balance.¹⁷

Australia's FX market also sees active trading in currency derivatives including FX swaps, forward foreign exchange and currency options. The activity in these derivatives is 2.1 times that of the spot FX market.¹⁸

¹⁵ Bank for International Settlements (BIS), *Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in April 2007*.

¹⁶ 3 monthly moving averages, using data from RBA Statistical Tables: F09 Foreign Exchange Turnover Against Australian Dollar and F10 Foreign Exchange Turnover Against All Currencies.

¹⁷ Australian Financial Markets Association (AFMA), *2008 Australian Financial Markets Report*, page 42.

¹⁸ AFMA, *2008 Australian Financial Markets Report*, page 3.

Participants

The strong growth characteristics seen in previous years across the entire foreign exchange market are reflected in the increased diversity of participants. In 2007-08, overseas financial institutions accounted for nearly two thirds of annual foreign exchange turnover.

PARTICIPANTS IN AUSTRALIA'S FOREIGN EXCHANGE MARKET – 2007-08

Counterparty	FX Annual Turnover A\$ Trillion	Market Share of Turnover as a Percentage
Local Financial Institutions	12.7	27.1
Overseas Financial Institutions	30.5	65.3
Non-Financial Institutions	3.5	7.6
Total	46.7	100.0

Sources: Australian Financial Markets Association, *2008 Australian Financial Markets Report*, page 43; Austrade



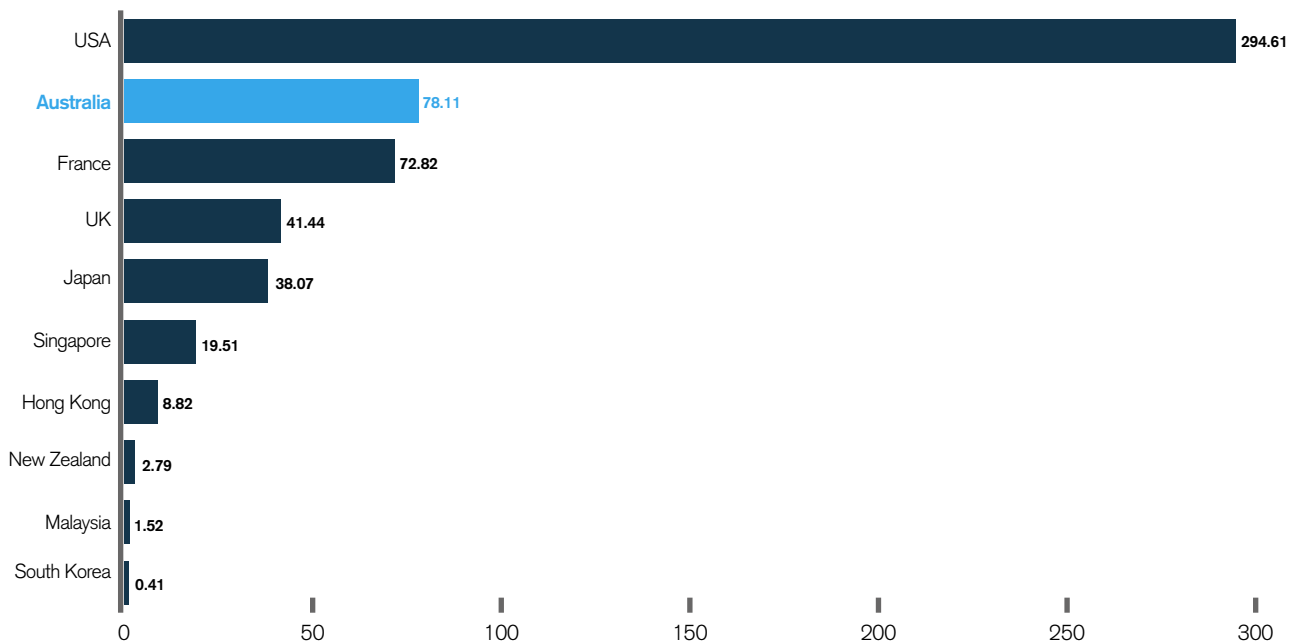
Other Markets

Property securities

Australia is receiving growing recognition as the largest REIT market in Asia. The Australian Securities Exchange also offers a liquid REIT based mini futures contract.

REAL ESTATE INVESTMENT TRUST (REIT) MARKET CAPITALISATION

US\$ Billion in the Year to 30 June 2008



Sources: Ernst & Young, *Global REIT 2008, Riding Out The Storm*; Austrade

Electricity derivatives

Australia has an active electricity derivatives market which saw 304 million megawatt hours (MWh) traded in the OTC market in the 2007-08 year, and 241 million MWh in the ASX exchange traded electricity futures market.¹⁹

The ASX (via its SFE subsidiary), in partnership with specialist firm d-cyphaTrade, has seen its electricity futures market grow ten fold since 2004-05. While electricity swaps accounted for two thirds of the OTC derivatives market, there was also significant activity in caps, swaptions, and collars and Asian options.

Generators account for 42 per cent of the OTC market, while retailers and intermediaries account for 39 per cent and 14 per cent respectively. Other participants such as hedge funds account for the balance.

¹⁹ Australian Financial Markets Association, *2008 Australian Financial Markets Report*, page 50.

Clearing and Settlement

Australia has four main clearing and settlement facilities.

Clearing Facility	Markets cleared
Austraclear	Debt Securities
Australian Clearing House (ACH, formerly known as Options Clearing House)	ASX Equity Options
ASX Settlement and Transfer Corporation (ASTC)	ASX Equities
SFE Clearing Corporation (SFECC)	ASX Futures and Options

Sources: Australian Securities and Investments Commission; Reserve Bank of Australia, ASX

Austraclear, ACH, ASTC and SFECC are subsidiaries of ASX Limited. ASX's Clearing House Electronic Sub-register System (CHES) supports a scripless equity market and operates on the basis of a T + 3 protocol, which allows for efficient dealing and completion of transactions.

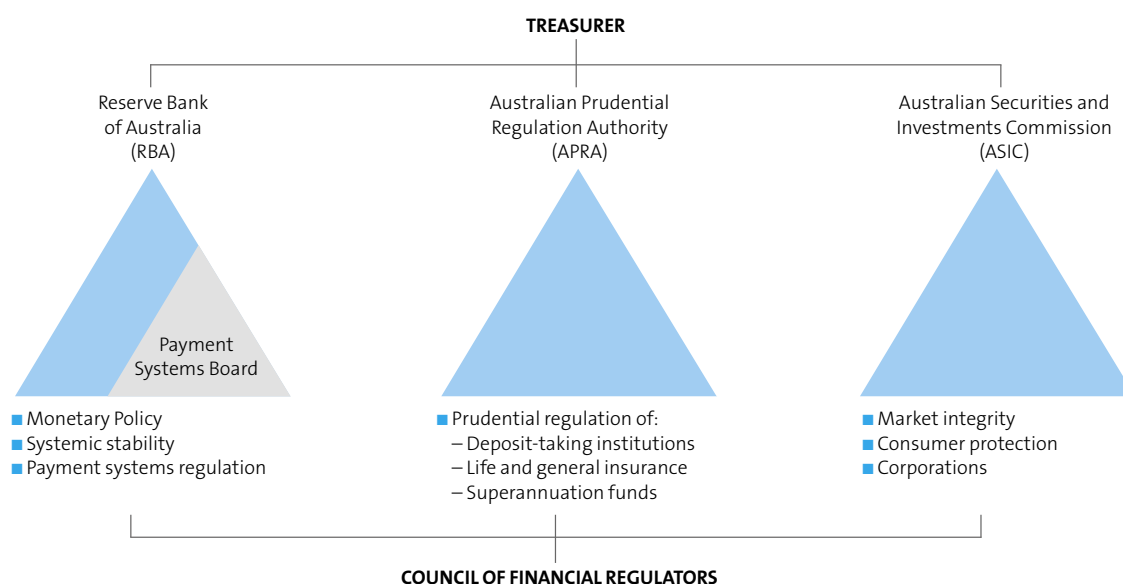
ASX has also established a framework for third-party clearing to enable brokers to either continue to offer both execution and clearing services, or outsource their back office services to clearing organisations.

Clearing and settlement and their related operations are enhanced by effective liaison between market participants as represented by the AFMA Operations Committee and the Australian Payments Clearing Association (APCA).

Regulation of Australia's Financial Markets

Regulatory framework

Australia's regulatory environment is viewed as a model by many jurisdictions around the world. Reforms in recent years have led to a system that is both best practice in approach and pro-business in outlook. The framework ensures that responsibility for supervision of financial services is delegated along functional rather than institutional lines, promoting greater efficiency and certainty.



Note: Membership of the Council of Financial Regulators also includes the Commonwealth Treasury.

Source: KPMG 1998 Financial Institutions Performance Survey

Three main financial market regulatory institutions are:

- **Reserve Bank of Australia (RBA)** – In addition to its monetary policy role, the RBA promotes efficient and effective payment systems. The RBA is responsible for the systemic stability of the financial system.
- **Australian Prudential Regulation Authority (APRA)** – The prudential regulator for banks and other deposit taking institutions, general and life insurers, superannuation trustees and friendly societies.
- **Australian Securities and Investments Commission (ASIC)** – Oversees corporation laws and licensing requirements for financial institutions. ASIC is responsible for market integrity and consumer protection.

A fourth body, the Australian Competition and Consumer Commission (ACCC) is responsible for competition and fair trade issues.

Conducting a financial business in Australia

The laws applicable to financial service providers operating in Australia will vary according to the type of activities conducted and the organisational structures in which business is conducted. Examples are:

Australian Financial Services Licence (AFSL)

A corporation carrying on a business of providing financial services as defined in the *Corporations Act 2001* is required to hold an Australian Financial Services Licence, issued by ASIC. A financial service constitutes:

- providing financial product advice;
- dealing in a financial product;
- making a market for a financial product;
- operating a registered scheme, effectively a retail fund; or
- providing a custodial or depository service.

A financial service provider may hold a single licence for the provision of multiple services.

All Australian financial services licensees are required to establish and maintain adequate risk management systems. The nature and extent of the risk management systems required of each licensee will vary according to the nature, scale and complexity of the business.

Exemptions from licensing may be granted to foreign financial service providers if the service is provided only to wholesale clients, or where it is provided by a person regulated by an overseas regulatory authority that has been approved by ASIC. Additionally, an exemption is available if an entity provides financial services only as a representative of another person who holds an AFSL.

Banking

A firm wishing to conduct a banking business in Australia is required to obtain authorisation from APRA, in accordance with the *Banking Act 1959*. A banking business is known broadly in the legislative framework as the 'taking of money on deposit and making advances of money'. Institutions granted an authority to carry on a banking business in Australia are referred to as 'authorised deposit-taking institutions' or 'ADIs'.

The majority of the activities conducted by financial service providers would not be classified as a banking business. However, if even a small part of the activities of the business relate to banking, authorisation must be received from APRA.

A foreign corporation conducting a banking business outside Australia and offering financial services and products in Australia must obtain a banking authority from APRA.

Stockbroking

Investment houses wishing to conduct a brokerage business on the ASX must be ASX approved. The ASX welcomes enquiries from foreign stockbroking firms wishing to participate on ASX markets. As market participants, they can conduct business without the need to establish an office or shopfront in Australia and utilise third-party settlement and clearing agencies located in Australia.

The ASX is the front-line supervisor of market and trading activity. Listed companies, brokers and other users that participate in ASX markets must adhere to the ASX Operating Rules. ASX is obliged under the *Corporations Act 2001* to operate markets that are fair, orderly and transparent. Each year, ASIC reviews ASX compliance with its licence obligations. ASIC also works closely with ASX to ensure market integrity.

Industry associations

The finance sector is represented by several associations specialising in particular segments of the market. The Finance Council of Australia (FICA) is an umbrella industry group whose members are:

- Australian Bankers Association (ABA)
- Australian Finance Conference (AFC)
- Australian Financial Markets Association (AFMA)
- Financial Planners Association (FPA)
- Insurance Council of Australia (ICA)
- Investment and Financial Services Association (IFSA)

Finance sector associations have an important role in discussing regulation of financial services with the Australian Government and official regulators. Some have self-regulatory roles, developing and monitoring codes of conduct, and providing a range of member services including professional training and accreditation.

Other financial market associations include:

- Alternative Investment Management Association (AIMA) Australia Chapter
- Australian Custodial Services Association (ACSA)
- Australian Payments Clearing Association (APCA)
- Australian Securities Lending Association (ASLA)
- Securities and Derivatives Industry Association (SDIA)

Australia's Business Environment

- **The World's 20 Largest Economies.** Although Australia's population is less than half a per cent of the global total, its economy ranks among the 20 largest in the world, rivalling countries such as South Korea and Netherlands in size and strength. Australia's total value of GDP is around 1 trillion US dollars, the fourth largest economy in the Asia-Pacific region.²⁰
- **Economic Growth.** Australia's average annual GDP growth rate from 2001 to 2009 is expected to be 2.7 per cent²¹, above the average rate of world growth (2.3 per cent) and ahead of other developed economies, including the US, UK, Japan, France and Germany. The robustness of the Australian economy is one of the major attractions of Australia as a global financial services centre in the Asian time zone.
- **Real Gross Value Added by Industry.** Finance and insurance is the fourth largest sector in Australia's economy, generating 8.1 per cent or A\$82 billion of real gross value added.²² This contribution is up from 5.9 per cent two decades ago. Australia's economy is now a service-based economy, with service industries accounting for around 70 per cent of total gross value added. The finance and insurance industry is now as big as the mining sector and its expansion has also aided growth in related sectors such as communications, property and business services.
- **Finance and Insurance Employed Persons.** Australia has 400,000 people employed in its large and expanding finance sector.²³ The significance of Australia's financial services employment is one of the great strengths and advantages of the country as a financial services centre in the Asian time zone. Its workforce is underpinned by skilled, multilingual and relatively low cost personnel. The attractiveness of Australia's workforce is complemented by excellent education and training facilities, a world best practice regulatory environment, a competitive business infrastructure and an enviable high quality of life.
- **Asian Languages Spoken in Australian Homes.** Australia has over 1.4 million people who speak an Asian language in their home.²⁴ The spread of Asian languages across the country highlights Australia's ability to offer a multilingual workforce in a variety of business locations. Over half a million Australians speak a Chinese language, emphasising Australia's attraction as a gateway to the economic powerhouse of China.
- **Salary of Skilled Professionals.** Salary levels in Australia for skilled professionals are generally lower than in comparable financial services centres around the globe. The availability of a large, relatively low cost, highly skilled and multi-lingual domestic workforce reduces the need to import expatriates, which is typically more expensive.
- **Global Office Occupancy Costs.** The cost of prime office space in Australia (using an average of all major cities) is among the most competitively priced in the world and compares favourably to other major regional and global financial services centres. The cost of office space in Hong Kong, for example, is more than three times that of Sydney and the cost of space in Singapore is almost double that of Sydney.²⁵
- **Financial Services ICT Spending.** Australian finance companies are sophisticated users of ICT which is driving productivity across the industry. Australian finance firms continue to invest heavily in new technologies and applications. Its total ICT spending is project to exceed US\$6 billion in 2010, and ranked the third highest in the Asia-Pacific region.²⁶

20 International Monetary Fund (IMF), *World Economic Outlook database*, April 2009.

21 IMF, *World Economic Outlook database*, April 2009. Average rate of world growth was based on market exchange rate.

22 Australian Bureau of Statistics (ABS), cat. no. 5206.0, *National Income, Expenditure and Product*, Time Series Workbook, Table 6.

23 ABS, cat. no. 6291.0.55.003 – *Labour Force, Australia*.

24 ABS, cat. no. 2068.0, *2006 Census Tables, 2006 Census of Population and Housing*.

25 CB Richard Ellis, *Global MarketView, Office Occupancy Costs*, May 2009.

26 World Information Technology and Services Alliance, *Digital Planet 2008*.

Useful Links

Austrade	www.austrade.gov.au
Australia Bankers' Association	www.bankers.asn.au
Australia Bureau of Statistics	www.abs.gov.au
Australian Financial Markets Association	www.afma.com.au
Australian Prudential Regulation Authority	www.apra.gov.au
Australian Securities and Investments Commission	www.asic.gov.au
Australian Securities Exchange	www.asx.com.au
Australia Taxation Office	www.ato.gov.au
Investment and Financial Services Association	www.ifs.com.au
Reserve Bank of Australia	www.rba.gov.au
The Commonwealth Treasury of Australia	www.treasury.gov.au

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Austrade

The Australian Trade Commission (Austrade) is the Australian Government's trade and investment development agency. Austrade provides advice on overseas markets, international opportunities, and Export Market Development Grants, to reduce the time, cost and risk for Australian businesses to successfully establish and grow their and international business, as well as promoting Australia's attractiveness as a destination for foreign direct investment.

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