

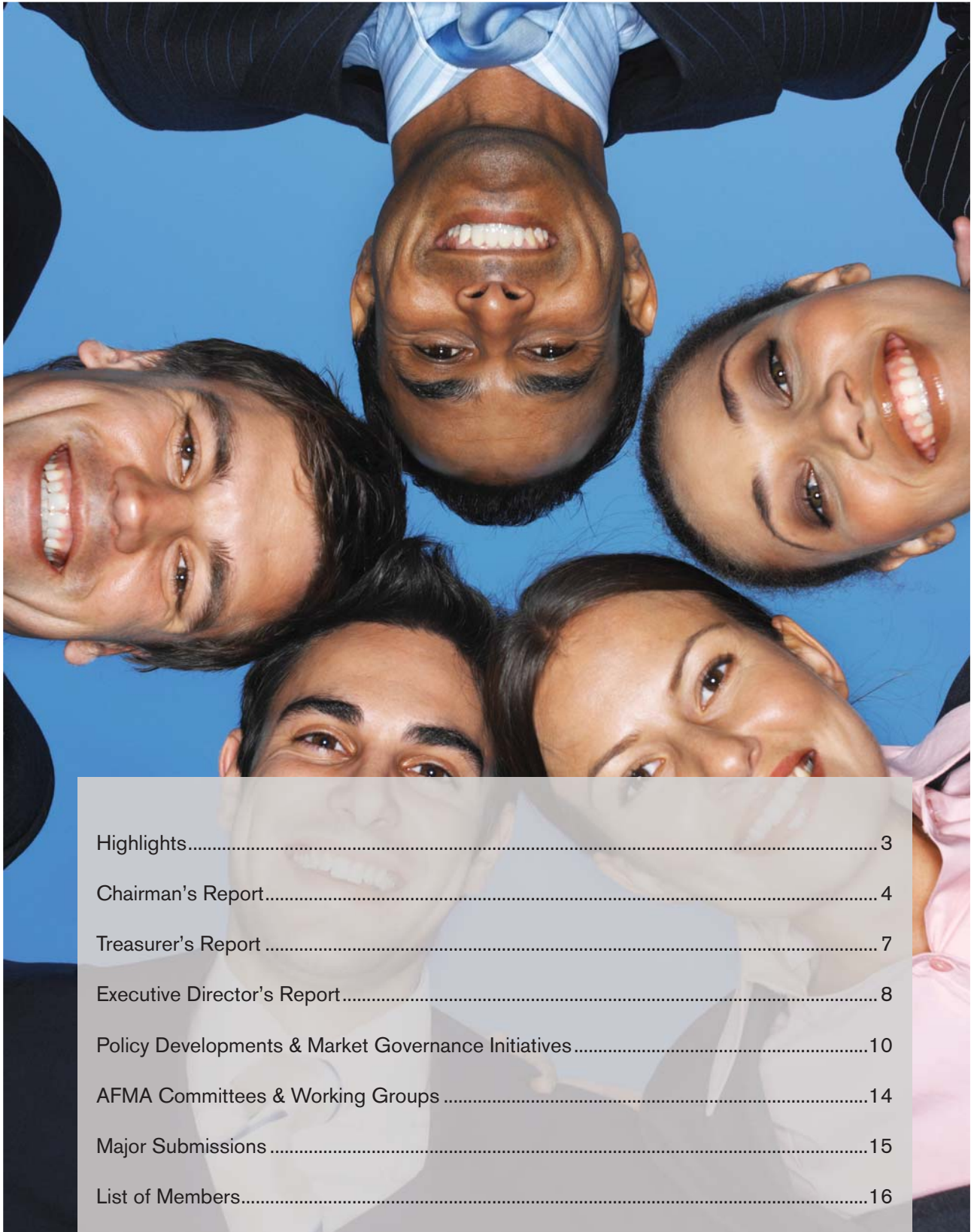
# 2006 Annual Report

Australian Financial Markets Association



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## Highlights

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- AFMA and IBSA were successfully merged with formal effect from 1 January 2006.
- A new corporate governance structure was put in place and is working well.
- The scope and function of AFMA's Technical and Policy Committees and Working Groups was reviewed to provide clarity of purpose, eliminate overlap and use member resources efficiently.
- AFMA's Technical Committees continued to enhance the smooth operation of Australia's over-the-counter markets, including finalising a review of debt capital markets documentation and modifications to market conventions and standards.
- On the regulatory policy front, AFMA was actively engaged in many issues of importance to members, including:
  - The Federal Government's review of business regulation, resulting in initiatives to reduce regulatory cost, including further refinements to the FSR regime;
  - Securing significant changes to the proposed anti-money laundering law to reduce its operational impact on members;
  - Holding high level discussions with the ASX/SFE and engaging the ACCC regarding the merger of the exchanges and its likely effects on market participants;
  - Modifications to APRA's fit and proper standard to make it more practical for ADIs to observe, particularly foreign banks; and
  - On-going discussions with ASIC about its proposed guidance on conflicts of interest.
- 300 professional staff employed by members gained the Diploma of Financial Services (Financial Markets) under the AFMA Financial Services Accreditation Program, taking the number of AFMA accredited individuals to 1,800.

## Chairman's Report

**I am pleased to report that the objectives set for the integration of AFMA and IBSA are being realised.**

**Since it formally took effect on 1 January 2006, we have built an effective association that speaks with one voice for wholesale banking and financial markets.**

Much potential remains but members can be pleased with the results achieved so far.

### Governance

The governance structure proposed to members at the last AGM has been enacted and is working well.

Leadership, strategic direction and policy decision making is provided by members of the AFMA Board. Members of the Board are CEOs or heads of institutional markets of the leading financial institutions in Australia and include representatives of specialist sectors of the AFMA membership. The commitment of the principals of our members means that when AFMA speaks it does so with the authority and credibility of the leading firms in all sectors of the market.

A Markets Governance Committee (MGC) at heads of financial markets level is the guardian of standards in the OTC financial markets and oversees the work of our Technical Committees.

The Secretariat, with guidance from the Board and MGC, is responsible for co-ordinating the work of Technical and Policy Committees, and carries responsibility for developing and executing Association policy.

### AFMA Board

I thank all of the members of the Interim Board who were elected at the AGM in December last year to guide the combined Association through its first year.

In particular, I would like to record my appreciation for the effort Russel Armstrong put into making the amalgamation exercise a success, first as Chairman of the former AFMA Executive Committee and then as a key member of the new AFMA Board.

The new Board to be elected at this year's AGM will be able to build on the momentum created.

Scope remains for further rationalisation of associations representing the wholesale sector and this should be an objective of the new Board.

I also take this opportunity to thank the staff of both AFMA and IBSA for championing the merger and helping to bring it to reality.

### AFMA Services

AFMA Services is the wholly-owned commercial arm of AFMA with a mandate to earn a profit from the services it provides to AFMA, other associations and market participants. Dividends generated by AFMA Services will help to put AFMA in a strong financial position and offset the pressure on membership fees.

The Chairman of AFMA Services, David Bell, reports to the AFMA Board and has presented his strategy for developing the business over the next 5 years.

As the owner of AFMA Services, it is appropriate for AFMA to appoint its representatives to the Board.

The Board has appointed Bruce Foy, a long-standing investment banker and former Chairman of IBSA, to the AFMA Services Board together with Duncan Fairweather, Executive Director of AFMA.

They will ensure that in following its commercial objectives, AFMA Services takes into account the interests and risk appetite of its owner.

### Business as Usual

While the amalgamation of AFMA and IBSA has absorbed a lot of our energy over the past year, we have not lost sight of the main purposes of the Association. These are to:

- Manage the smooth operation of Australia's over-the-counter (OTC) financial markets;
- Promote high standards of professional conduct; and
- Deal with regulatory issues affecting wholesale banking and financial markets.

Effective self-management of the OTC markets is achieved through specialist Technical Committees that comprise the leading participants in each market segment. Their role is to develop the conventions that



ensure the efficient operation of the OTC markets which turned over \$58 trillion last year, a measure of the vitality of the Australian financial markets.

The market-based focus of AFMA's 22 Technical Committees is complemented by the external focus of the 18 Policy Committees and Working Groups which deal with regulatory policy issues affecting members. The role of these Committees is to consider existing and proposed regulation and advise the Board, via the Secretariat, on the position the Association should take in its representations to the Government and regulators via formal submissions and other means of conveying our message.

The commitment of senior staff from member firms to the work of the Technical and Policy Committees is vitally important to the success of the Association and the Board wishes to acknowledge the efforts of all member staff who engage pro-actively in the management of industry affairs.

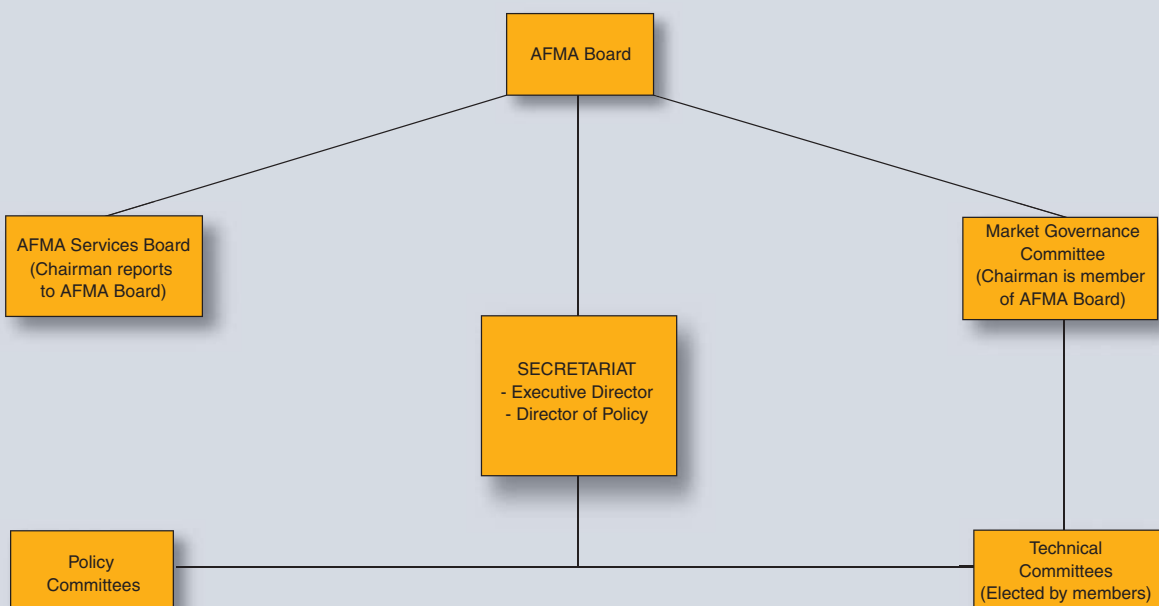
#### Early Test for New Association

Early in the life of the new Association, the Board needed to address the consequences for market users of the merger between the Australian Stock Exchange (ASX) and the Sydney Futures Exchange (SFE). This merger was announced against a background of rising member concern about the costs of participating on both exchanges.

While not opposing the merger, the Board was concerned about creating a large market monopoly and sought conditions to be applied by the Australian Competition and Consumer Commission (ACCC) and by the Treasurer. These were aimed at giving AFMA members some leverage against monopolistic pricing and guaranteed access to exchange infrastructure.

Several Board level discussions were held with the principals of the ASX/SFE, with the Chairman of the ACCC, with Treasury and the Treasurer's Office. These were backed up by extensive written submissions.

## AUSTRALIAN FINANCIAL MARKETS ASSOCIATION



While the conditions we sought were not granted, statements by the ACCC and the Treasurer acknowledged the concerns we raised and referred to potential remedies under the law and regulatory sanctions should recourse to them ever become necessary. These statements will be a useful reference point in our on-going discussions with the merged exchange over future access and pricing issues as necessary.

AFMA will continue constructive dialogue with the ASX-SFE to promote the interests of members as the merged exchange takes shape.

I should note that Angus James and Brad Orgill, whose firms were advisers to the ASX-SFE merger, declared their interest and withdrew from all Board discussions on this issue.

Aside from this important item, AFMA was actively engaged in a range of policy and regulatory issues that affect members' businesses. The Director of Policy comments on these in more detail in his report from page 10.

### Cost of Regulation

Proportionate regulation of the finance sector, and business generally, remains the central concern of our advocacy efforts. Regulation is necessary to ensure orderly markets and to build investor confidence, but the benefits and costs of regulation need to be well balanced. In Australia we must always be conscious that in world terms we are a small market, that capital is mobile and that if the degree of regulation applied here makes investment in Australia too difficult, it will simply go elsewhere.

AFMA made a substantial submission to the Regulatory Taskforce established by the Federal Government last year to seek views on how the cost of regulation can be contained and applied effectively. AFMA argued that regulation should be applied astutely and in a manner proportionate to the issue it is designed to address. Excessive regulation, especially in wholesale markets where it is not warranted, carries a deadweight compliance cost that acts as a drag on the efficient operation of the financial services market.

Whilst dealing with deficiencies in the existing stock of regulation is important, initiatives to improve the process of regulation are perhaps even more important. We took the opportunity to offer our perspective on how the regulatory process can be improved to reduce cost.

The resultant report by the Taskforce reflected many of the issues raised in our submission and made several recommendations on actions to reduce red tape. In particular, the Taskforce noted our comments on the need to improve regulatory processes, from the policy "ideas stage" to the regulatory instrument design and administration stages. The report also noted our comments on the important role of the self regulatory process in bringing industry know-how and experience to regulatory issues.

The Government's positive response to the Taskforce recommendations is encouraging, however it will need a sustained effort to push back the tide of regulation and actions rather than words.

This theme is reflected in our submissions to government on a wide range of issues and in our ongoing dialogue with Ministers, their advisers and with regulators.

Nine months after the decision to bring AFMA and IBSA together was taken by our members, I am confident that the new Association is working well and meeting its objective of protecting and promoting the interests of participants in the wholesale markets. I would like to thank all member firms for their support.



Chum Darvall  
Chairman

## Treasurer's Report



**The consolidated accounts for Australian Financial Markets Ltd (the Association) and AFMA Services Pty Ltd (the Association's wholly-owned subsidiary) for 2005-06, which accompany this report, show that the group's finances are sound.**

While year on year results can't be directly compared, due to the merger, group revenue of \$8.4 million produced a profit of \$492,000. After tax, AFMA Services' contribution to this profit will be paid as a dividend to the Association.

The Association's budget remains heavily reliant on member fees which comprised 84 percent of Association income in the past year.

Following the merger, the Directors approved a new fee structure that aims to:

- Maintain the Association's fee revenue;
- Honour the commitment to freeze small AFMA non-FI member fees for two years post-merger (in effect, a 5-year fee freeze); and
- Smooth out as far as possible the anomalies created by combining AFMA's tiered fee structure with IBSA's flat fee.

The result was that most small AFMA members are paying the same fee this year as they did last year. Most medium AFMA members are paying slightly less than the combined AFMA-IBSA fee, however some medium members who were not members of IBSA are paying more. Large members of both associations are paying a higher fee.

The Directors will keep fees under review and some further adjustment of fees may be necessary for the next financial year.

Going forward, we aim to reduce the pressure on member fees through a significant annual dividend from AFMA Services. Profits earned from the commercial operations of AFMA Services will be used to subsidise the Association's representation activities.

Stephen Knight  
Treasurer

## GROUP FINANCIAL SUMMARY

### Income and expense to 30 June 2006/2005

	Group – Jun 06	Group – Jun 05	AFMA – Jun 06	AFMA – Jun 05
Revenue	\$8,381,584	\$7,541,957	\$1,738,811	\$6,298,824
Expense	\$7,888,681	\$7,260,022	\$1,819,919	\$6,138,246
Profit before tax	\$492,903	\$281,935	(\$81,108)	\$160,578
Income tax	(\$171,320)	(\$11,928)	(\$12,239)	(\$11,949)
Profit after tax	\$321,583	\$270,006	(\$93,338)	\$148,629

### Assets and liabilities at 30 June 2006/2005

	Group – Jun 06	Group – Jun 05	AFMA – Jun 06	AFMA – Jun 05
Total assets	\$4,861,065	\$3,731,836	\$1,491,510	\$2,007,391
Total liabilities	\$3,455,862	\$2,648,217	\$714,353	\$1,136,896
Net assets	\$1,405,203	\$1,083,619	\$777,157	\$870,495

## Executive Director's Report

### Integration Progress

A key focus of the second half of the year was to bed down the AFMA-IBSA amalgamation that took effect on 1 January. To this end:

- AFMA's corporate status was changed from an incorporated association under NSW law to a public company registered under the Federal Corporations Act.
- Support provided by AFMA Services, including communications, financial management, member services, human resource management and secretariat support for committees was delivered from day one.
- The structure and objectives of Policy and Technical Committees were reviewed and implemented under the guidance of the Director of Policy.
- A new Service Level Agreement was negotiated with AFMA Services.
- Plans were made to re-locate the former IBSA staff from the Bligh Street office to Pitt Street. This is expected to happen early in 2007.

The smooth integration has been aided by the positive attitude to the amalgamation from both former AFMA and IBSA staff and the desire held by everyone to make it work.

While the process of integration is on-going, members can be assured that the amalgamation is working the way it was intended and achieving the benefits foreseen by the members of both associations.

### Membership

AFMA continues to maintain broad coverage of the wholesale banking and financial markets. Our 136 members include:

- All of the national and regional Australian banks through their institutional business;
- Virtually all of the foreign banks licensed in Australia;
- The significant Australian and foreign investment banks and securities companies;
- The leading participants on the ASX and SFE;
- All State and Territory treasury corporations;
- The majority of traders in the National Electricity Market;
- Equity and debt exchanges and service providers to these markets;
- Specialist providers, eg currency exchange;

- Corporate treasury units;
- Leading law and accountancy firms; and
- Relevant regulators (as Affiliate Members).

While AFMA has a mature membership in terms of its broad coverage of the majority of firms engaged in wholesale banking and financial markets, we remain keen to attract new members in traditional and emerging markets. Since January 2006, AFMA has recruited 8 new members. This was offset by the resignations of 3 members, mainly as the result of industry changes, for an overall membership of 108 Financial Markets Members, 16 Partner Members and 12 Affiliate Members.

A full list of members is on page 16–17.

### Member Services

Apart from our two core functions – ensuring the effective self-management of the OTC markets and representing member's interests on regulatory policy issues – AFMA members have access to a range of services provided by AFMA Services.

### Education and Training

AFMA Services is currently developing a specialist qualification for Responsible Officers, which is at Advanced Diploma level. This will supplement the current Diploma, which is recognised by the Australian Securities & Investments Commission (ASIC) as an acceptable professional qualification that meets Australian Financial Services Licence requirements. In 2006, AFMA accreditation was gained by 300 staff employed in the financial markets taking the total number of currently accredited individuals to 1,800. AFMA is a Registered Training Organisation.

I would like to express my appreciation to the AFMA Accreditation Board for their contribution in maintaining the high standards of AFMA Accreditation.

### Conferences

AFMA Services provided a wide range of conferences and seminars of relevance to members' business. A highlight was the first public presentation by David Murray, the Chairman of the Future Fund on the Fund's governance and its investment strategy. Another successful product was a series of four half-day briefings on



forthcoming changes to anti-money laundering and counter-terrorism financing laws in which speakers included the Minister for Justice, Senator Ellison, and senior officials from the Attorney-General's Department and AUSTRAC. A conference on the avian flu threat also attracted strong member interest.

A new series of Brown Bag lunchtime briefings on topical issues is presenting speakers on current issues, eg anti-money laundering briefings partnering with AUSTRAC, the impact of the Tax Promoter Penalty legislation, managing conflicts of interest in the financial services industry, the property derivatives market in Australia, the Avian flu pandemic preparedness plan and identifying future PPP (Public Private Partnerships) opportunities in NSW infrastructure.

#### ■ Applied AML

As the financial sector braces for the new anti-money laundering and counter-terrorism financing (AML/CTF) measures due in 2007, AFMA Services is developing a suite of compliance modules to assist members design and implement their AML/CTF Programs as will be required under the new law. These include governance, risk assessment methodology, a know-your-customer package, customer and transaction monitoring, suspicious transaction reporting, record keeping and staff training. The concept – marketed as Applied AML – is to provide templates which can be tailored by members to meet their particular needs.

#### ■ AFMAdata

This service continued to provide daily benchmark rates to the market, including the Bank Bill Swap Reference Rate which is calculated from information provided by a panel of market price makers and disseminated publicly via Reuters, Bloomberg and other information services and newspapers.

#### ■ Immigration

A new agreement was negotiated between AFMA and the Federal Government to assist AFMA members who wish to bring foreign-based staff into Australia on temporary visas. In addition, under the agreement, AFMA can assist staff on temporary visas to convert to permanent residency.

In view of the current controversy about the use of class 457 visas to bring in low cost foreign workers, it is relevant to note that under the AFMA agreement, staff brought into Australia by AFMA members on these visas must be executives, managers or specialists with expertise needed in their Australian operations.

The AFMA members that use the immigration service recruit many more Australians than foreign-based staff. Of the new staff recruited by these members in the past year, only two in a hundred were engaged from offshore. Further, for every foreign-based staff member transferred to Australia on a temporary visa, the members who use the service posted four of their Australian staff to other countries. This interchange of skills favours Australians seeking to advance their careers in global financial markets.

#### Member Communications

AFMA's prime means of communication with members is via the AFMA Policy and Technical Brief which is distributed monthly by email and provides a summary of the key regulatory issues that AFMA is dealing with, the activities of Technical Committees and other relevant news.

AFMA members are encouraged to circulate the Brief widely among their staff as it is a convenient and efficient way of keeping up to date with industry affairs and issues that impact on members' business.

#### Staff

The five staff members previously engaged by IBSA now form the staff of AFMA. In addition, a new Senior Policy Executive was recruited in October to assist the Director of Policy in dealing with the broader range of issues and larger number of member committees. The staff of AFMA, supported by the staff of AFMA Services, forms a tight, dedicated team that works hard in the interests of members. I thank them all for their efforts during what has been a demanding year.

Duncan Fairweather  
Executive Director

## Policy Developments & Market Governance Initiatives

**It is pleasing to report that the Association's Policy and Technical Committees have been highly effective over the last year in improving the business environment for members by securing changes to new regulatory proposals and by addressing deficiencies in the existing stock of regulation. All member firms have benefited significantly from their work.**

This outcome reflects a significant commitment by member firms and their representatives on Policy and Technical Committees to the objectives of the Association. By working in a collaborative manner, they have been able to exercise the collective strengths of the industry effectively. This reflects well upon the individual members of those Committees and associated Working Groups and is a manifestation of the sound guidance and support provided by the Board and the Market Governance Committee.

Further, it is evident that participants in wholesale banking and financial markets are in a stronger position to respond collectively to the challenges of regulatory reform as a consequence of the merger between IBSA and AFMA. The value of this development is underlined by the pace at which new reform proposals and regulatory issues continue to emerge. Some changes present new business opportunities for members and others present risks through higher costs and undesirable operational constraints.

### Technical Committees and Working Groups

AFMA aims to encourage high professional standards in the wholesale markets and to facilitate the effective management of OTC markets through agreed market conventions and standards. The Market Governance Committee has oversight of the activities of the Technical Committees and Working Groups that deal with these matters. This member driven process has facilitated a range of changes necessary to maintain the vibrancy and value of AFMA's market documentation, conventions and standards. Some examples to illustrate this include:

- The Debt Capital Markets Documentation Working Group completed a review of AFMA's wholesale debt capital markets documentation, which was developed some years ago to facilitate and standardise the documentation for capital issues

on the wholesale debt market. The Working Group, in consultation with the Debt Capital Markets Committee, developed a Terms Sheet Template, which is included in AFMA's Recommendations for Australian Wholesale Debt Capital Markets from July 2006;

- After considering alternatives, the Cash Committee agreed that in relation to the AFMA data page 'AFMZ', the Standard Transaction Size would be increased to \$25 million, subject to credit limits;
- Recognising a desire for certainty, the Debt Securities Committee implemented a definition of a 'good' business day and a 'non' business day, after consultation with other Technical Committees;
- Following a review, the Swaps Committee made changes to minimum dealing sizes for transactions involving Interest Rate Swaps, including new standards for "Short Dated" Interest Rate securities, Bills/LIBOR Swaps, Overnight Index Swaps and Forward Rate Agreements.

The range of markets and issues covered by the Technical Committees continues to expand, reflecting the evolution of OTC markets. For example, the development of Environmental Products markets (for products like Renewable Energy Certificates and Water) led the Environmental Products Working Group to adopt a formal committee structure. Under the Guidance of this Committee, AFMA has launched additions to the "Guide to OTC Documents" covering relevant products.

AFMA is represented on all three Working Groups set up by the Energy Reform Implementation Group, recognising the role AFMA plays in derivative markets.

### Important Policy Developments

Over the last year, AFMA has represented members on a wide range of issues. This included the preparation of well over 50 submissions, liaison meetings with the Australian Securities & Investments Commission (ASIC), the Australian Prudential Regulation Authority (APRA), the Australian Taxation Office (ATO) and the Australian Stock Exchange (ASX), as well as many other related discussions. A theme that continues to be present is the need for regulators to appropriately distinguish between retail and wholesale markets in the administration of regulation. Some matters covered



were specific to particular types of members; for example, foreign authorised deposit-taking institutions (ADIs), energy traders, securities companies or institutional banks. However, most of the regulatory reforms and business developments we considered affect all members.

#### Anti-money Laundering Regime

The anti-money laundering and counter-terrorism financing (AML/CTF) legislation required a substantial policy effort during the past year, to ensure it does not impose an unreasonable burden on members' business. The new regime has a high impact on financial institutions and markets and the initial proposals would have presented substantial difficulties.

AFMA has taken the lead for the financial sector on such elements as the customer information reporting requirements for domestic and international funds transfers, correspondent banking relationships and offshore branch requirements. In each area, we have succeeded in gaining improvements to the proposed legislation which will make the AML/CTF measures somewhat easier and less costly to implement, while still ensuring that Australia meets international standards.

AFMA has been building relationships to bring industry experience and expertise to bear on the policy and rule development process on an ongoing basis. AFMA is an active member of the:

- AML/CTF Ministerial Advisory Group appointed by the Minister for Justice;
- Finance Sector Technical Working Group;
- International Issues Working Group (co-chairing this group with the Attorney-General's Department); and
- Legislative Drafting Focus Group.

In addition, AFMA is a member of the Financial Action Taskforce on Money Laundering (FATF) Electronic Advisory Group on the Risk-Based Approach and the AML Working Group of the International Council of Securities Associations (ICSA).

#### Conflicts of Interest

There is a global trend towards greater regulatory oversight of the management of conflicts of interest

by financial intermediaries. Australia is at the leading edge of this development, placing a legal obligation on financial services licensees to manage conflicts of interest in all aspects of their business. This approach to conflicts regulation is complicated by the range of services offered by many member firms and uncertainty about aspects of legal relationships, especially the scope of fiduciary duty.

AFMA is using our dialogue with ASIC to press for proportionate and targeted regulation in this area. As part of this process, we have sought to obtain clarity on ASIC's policy on proprietary trading, consequent to legal action by ASIC against a member firm which has created uncertainty for the industry. We also provided a detailed response to a subsequent ASIC discussion paper that contains 25 case studies of conflicts across the spectrum of financial services business. Members identified a number of significant issues in their feedback and we expect ASIC to conduct further consultations and to refine its guidance.

#### ASX-SFE Merger

The Chairman in his report has commented on our work on the merger between ASX and SFE. The merged exchange has announced some fee reductions and has sought to maintain a wide-ranging relationship with AFMA. We believe more can be achieved through this relationship and the merger implementation will generate a range of technical issues (like the amalgamation of clearing houses) requiring our attention.

#### Corporations and Financial Services Reforms

AFMA's submissions to the Taskforce on Reducing Regulatory Burdens on Business were successful (being referenced at significant points in the Taskforce Report) and have helped to shape the reform program. Problems specific to financial services regulation are being addressed through the Corporate and Financial Services Reform process. A wide range of improvements relevant to members are being contemplated – for example, proposals to give:

- Better differentiation in regulation between retail and wholesale clients;
- Simpler company reporting obligations;
- Greater clarity on prospectuses for fundraisings and removal of the obligation to produce

a prospectus for rights issues of quoted securities;

- Enhanced ASIC-industry communications;
- Consideration to reforms to insider trading law as it applies to OTC markets.

### OTC Markets – Regulation

ASIC's 2005–10 Strategic Plan identifies the OTC markets, which it views as lightly regulated, as an area that it will take a closer interest in. The Federal Budget in May 2006 provided ASIC with an extra \$30 million over 4 years to “enable it to develop its presence in relation to non-exchange based markets”. The development of OTC market regulation, and related matters like bond market transparency, will remain a pertinent item for discussion during our ASIC liaison meetings. In this context, it will be important for AFMA to demonstrate our successful self-management of the OTC markets to forestall unnecessary official regulation.

### APRA Fit & Proper and Governance Standards

During the year, APRA released its much anticipated prudential standards on governance for ADIs and on ‘fit and proper’ tests for directors and senior managers. APRA conducted an extensive consultation process and both final standards reflect a wide range of issues identified by members. The final standards are less prescriptive than the initial proposals and reduce the amount of potential regulatory overlap in the system. AFMA will continue to deal with issues that arise for members in the implementation of the standards.

### Pandemic Planning

During the year, AFMA established a Pandemic Planning Working Group to focus on financial market issues and to assist members to respond to business issues that might arise in the context of a pandemic situation arising.

### Taxation

AFMA dealt with a wide range of issues during the past year. Some issues are significant in terms of their impact on the industry as a whole. Perhaps the most notable in this regard is the painfully slow development of more sensible and compliance friendly rules for taxing financial arrangements (TOFA), including derivatives transactions. AFMA made several contributions to the development process and solid progress was made

last year but legislation still has to be presented to Parliament.

The new regime to prevent promoters of aggressive tax schemes is another pervasive issue. AFMA worked with other industry bodies to secure significant improvements to the legislation but in some instances it still poses an unreasonable tax risk for member firms and their employees. Our current objective is to ensure that the ATO's administration of the law is managed to reduce these risks for legitimate business to a more acceptable level.

AFMA continues to represent the industry on the taxation of financial products, like warrants and protected equity loans. After a few false starts, progress was made last year towards a fairer tax outcome for investors and members' business.

Examples of other significant gains include more pragmatic guidance from the ATO on the application of tax treaty withholding tax relief for funding from financial institutions, improvements to the tax administration process that reduce compliance costs, the reduction of heavy taxes on temporary residents and improvements to NSW payroll tax arrangements for employee share schemes. These illustrate the broad range of our tax activities and their relevance to the various business streams within the industry.

### Approach to Policy

The Association's approach to the management of policy issues is founded on careful fostering of key long-term relationships, the development of credible and balanced policy positions and consistency. In our experience, it can take several years of lobbying before policy issues are resolved, even where there is general agreement about the desired outcome.

Our policy dialogue takes place at a number of levels, beginning with the Government as the ultimate authority for regulation. We hold regular meetings with government ministers and opposition politicians, members of parliamentary committees, as well as backbench committees. Our objective is to ensure that the importance of the wholesale banking and financial markets to the nation's economic success is understood, so policy measures are proportionate and targeted to operate in the least intrusive and most practical manner.

We have a good working relationship with regulators; notably ATO, ASIC and APRA. This has delivered helpful results for members over the past year but we see potential to deepen dialogue over the long-term, so it becomes even more effective as a means to resolve technical and administrative issues. This engagement with regulators is essential for good policy and administration of regulation, because it facilitates the blending of industry's practical business experience and knowledge of the markets with the regulators' public policy skills.

Reflecting the nature of members' business, AFMA has developed a vibrant representative relationship with the ASX and SFE in respect of business matters and the exchanges' capacity as market co-regulators. This has involved discussions with the CEO of the merged exchange, as well as regular interaction with the representatives of the various operational areas of the exchange. It will be important to utilise this relationship to greatest effect to respond to ongoing market innovations and regulatory change.

#### External Links

AFMA maintains formal and informal relationships with other industry associations locally and internationally

to coordinate and focus industry's advocacy on important issues. For instance, through the Finance Industry Council of Australia (FICA), we work closely and effectively with the other key industry associations that represent the banking, investment management, insurance, finance and financial planning sectors.

On the international front, AFMA is an active member of the International Council of Securities Associations (ICSA) and the Asia Securities Forum. ICSA is particularly valuable as a forum to exchange information on common developments and through which we can have an influence on international regulatory standards that eventually are reflected in Australian regulation.

AFMA is a member of the Business Coalition for Tax Reform (BCTR), the Australian Services Roundtable (ASR) and is represented on the ASX Corporate Governance Council.



David Lynch  
Director of Policy



## AFMA Committees & Working Groups

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### AFMA BOARD (2005-06)

- Russel Armstrong (Westpac Institutional Bank)
- Greg Bartlett (St George Bank)
- Chum Darvall (Deutsche Australia) – Chairman
- Eric Dhoste (SG Corporate & Investment Banking)
- Craig Drummond (Goldman Sachs JBWere)
- Stuart Grimshaw (Commonwealth Bank of Australia)
- John Hooper (National Australia Bank)
- Angus James (ABN AMRO)
- Hajime Kadota (Sumitomo Mitsui Finance Australia)
- Russell Kennett (State Street Bank and Trust Company)
- Stephen Knight (NSW Treasury Corporation) – Treasurer
- Tim O'Grady (Energy Australia)
- Brad Orgill (UBS AG)
- Rob Priestley (JPMorgan Chase Bank, N.A.) – Deputy Chairman
- Stephen Roberts (Citigroup)
- Richard Sheppard (Macquarie Bank)
- Steve Targett (ANZ)

### AFMA MARKET GOVERNANCE COMMITTEE (2005-06)

- Russel Armstrong (Westpac Institutional Bank) – Chairman
- Paul Bide (Macquarie Bank)
- Peter Fitzgerald (St George Bank)
- Jonathan Glass (JPMorgan Chase Bank, N.A.)
- Jeff Herbert-Smith (Citigroup)
- Steven Lambert (National Australia Bank)
- Rod Lewis (Commonwealth Bank of Australia)
- Simon Maidment (UBS AG)
- Tim O'Grady (EnergyAustralia)
- Michael Ormaechea (Deutsche Australia)
- Gilles Plante (ANZ)
- Andrew Wardle (SG Corporate and Investment Banking)
- William Whitford (Treasury Corporation of Victoria)

### AFMA ACCREDITATION BOARD (2005-06)

- Clive Bennett (AFMA Services) – Chairman
- Lindsay Brine (National Australia Bank)
- David Clifford (Allens Arthur Robinson)
- Emma Crivelli (AFOA)

- Andrew Kennedy (ABN AMRO)
- Steven Lambert (National Australia Bank & MGC)
- Ken Loudon (Commonwealth Bank of Australia)
- Andrew Miller (ANZ)
- Max Morley (Westpac Banking Corporation)

### TECHNICAL COMMITTEES

- BBSW Committee
- Cash Committee
- Credit Derivatives Committee
- Debt Capital Markets Documentation Committee
- Debt Capital Markets Committee
- Debt Securities Committee
- Documentation Committee
- Electricity Committee
- Environmental Products Committees
- Gas Trading Committee
- Interest Rate Options Committee
- Negotiable/Transferable Instruments Committee
- Repo Committee
- Swaps/Derivatives Committee

### BUSINESS LINES COMMITTEES

- Equities Steering Committee
- Futures Steering Committee
- Equity Derivatives Committee

### OPERATIONS COMMITTEES & WORKING GROUPS

- Futures Broking & Operations Committee
- Risk Management Committee
- Pandemic Planning Working Group

### POLICY COMMITTEES & WORKING GROUPS

- Compliance Advisory Group
- Financial Markets Compliance Committee
  - Research/Conflicts of Interest Working Group
  - Capital Raising Working Group
  - Futures Industry Compliance Working Group
- Bank Regulation Committee
- Companies and Securities Urgent Issues Group
- Security Group
- Taxation Committee
- GST Working Group
- Financial Products Taxation Working Group
- State & Employment Taxes Working Group
- Accounting Group
- Human Resources Committee
- Women in Investment Banking Working Group

## Major Submissions



AFMA made 51 submissions on various taxation and regulatory issues. Significant submissions include:

SUBMISSION ISSUE	POLICY MAKER	INDICATIVE BENEFIT		
Proposed Merger Between ASX and SFE*	ACCC, Government	◆	●	■
Foreign Acquisitions and Takeovers Act*	Treasury	◆	●	■
Emissions Trading Systems	Inter-Government Group			■
Reducing the Regulatory Burden on Business*	Government Taskforce, FSAC	◆	●	■
Benchmarking Regulation Performance	Productivity Commission	◆	●	
Anti-Money Laundering/Combating Terrorist Funding Submissions: Consultation Process, Regulatory Structure, Anti-Terrorism Act No 2, FTRA Amendment Bill, AUSTRAC Guidance, First Draft AML/CTF Bill, Second Draft AML/CTF Bill, Draft AML/CTF Rules, Threshold Reporting – Currency Exchange, Suspicious Matters – Tax Law Breaches, Exemptions – Electricity Futures Market, Implementation Timetable	Attorney General's Department, Minister, AUSTRAC, Senate Legal & Constitutional Committee	◆	●	
Conflicts of Interest in Financial Services*	ASIC	◆	●	
Corporate and Financial Services Regulation Review	Treasury	◆	●	■
FSR Refinement Regulations	Treasury	◆	●	■
OTC Transaction Record Keeping	Treasury		●	
Sydney Futures Exchange Market Rules*	SFE		●	
National Guarantee Fund Reform*	Treasury, Minister		●	■
Financial Market Licence Exemptions	ASIC		●	■
Compliance Function at Market Intermediaries	IOSCO		●	
Prudential Standard APS 510 (Corporate Governance)	APRA	◆	●	
Fit and Proper Requirements (APS 520)	APRA	◆	●	
Scheduled Fees for Section 672A Notices*	ASIC, Treasury	◆		
Repetition of General Advice Warning	ASIC		●	■
'Dollar Disclosure' of Staff Incentive Arrangements	ASIC		●	
Draft Policy Statement: Better Prospectus Disclosure	ASIC	◆	●	■
Burden of Regulation in NSW	NSW Review	◆		
Financial Sector Regulation and Technology	FSAC		●	
Trade in Financial Services - Model Schedule	Treasury, WTO			■
Takeovers Reforms	Finsia		●	■
Legal Certainty - Securities Taken as Collateral (PRIMA)	Treasury		●	
Business Closure Costs As a Tax Expenditure Black Hole	Assistant Treasurer	◆		
NSW Payroll Tax on Employee Share Schemes*	Office of State Revenue	◆		
Improvements to Taxation of Expatriates	Treasury	◆		
Tax Promoter Penalty Regime*	Treasury, Government	◆	●	
ATO Risk Reviews	ATO		●	
Taxation of Capital Protected Products*	Treasury		●	■
Taxation of Financial Arrangements*	Treasury	◆	●	■
Sovereign Immunity & Withholding Tax	Treasury	◆		
Capital Gains Tax and Foreign Residents	Treasury	◆		■
s.128F Interest Withholding Tax Arrangements*	Treasury, Government	◆		■
Tax Status of ASX Subordinated Debt	ATO	◆	●	

\* several submissions prepared

FSAC – Financial Sector Advisory Council

Direct cost saving	◆
Better regulation	●
Business opportunity	■

## List of Members

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### FINANCIAL MARKETS MEMBERS

ABN AMRO Bank NV  
Adelaide Bank Limited  
AMP Capital Investors Limited  
AMP Services Limited  
ANZ Banking Group Limited  
Arab Bank Australia  
Aurora Energy Pty Ltd  
Australian Office of Financial Management  
AWB Services Limited  
Bank of America NA  
Bank of China  
Bank of Queensland  
Bank of Tokyo-Mitsubishi UFJ Ltd  
Barclays Bank PLC  
Bendigo Bank Limited  
BGC Partners (Australia) Pty Ltd  
BNP Paribas  
BP Energy Asia Ltd  
Brisbane City Council  
Calyon Australia Limited  
Citigroup  
CMC Markets Asia Pacific  
Colonial First State Investments Ltd  
Commonwealth Bank of Australia  
Country Energy  
Credit Suisse  
Credit Union Services Corporation (Australia) Limited  
CS Energy Ltd  
Custom House Global Foreign Exchange  
Delta Electricity  
Deutsche Bank AG Australia  
EnergyAustralia  
Enertrade  
Eraring Energy  
Ergon Energy  
Fimat SNC  
Goldman Sachs JBWere Capital Markets Limited  
Hastings Capital Limited  
HBOS Treasury Services plc  
HIFX Ltd  
HSBC Bank Australia Limited  
Hydro Tasmania  
ICAP Australia Pty Ltd  
IFX Markets Limited  
ING Bank (Australia) Limited  
ING Bank NV Sydney Branch  
Integral Energy Australia  
InterGen (Australia) Pty Ltd  
International Power (Australia) Pty Ltd  
Investec Bank (Australia) Limited  
JPMorgan Chase Bank, N.A.  
Legg Mason Asset Management Australia Limited  
Loy Yang Marketing Management Company Pty Ltd  
Macquarie Bank Limited  
Macquarie Generation  
Man Financial Australia Limited  
Merrill Lynch (Australia) Pty Ltd  
Mizuho Corporate Bank Ltd Sydney  
Morgan Stanley Australia Limited  
nabCapital  
Newcastle Permanent Building Society  
NewGen Power Pty Ltd  
NM Rothschild & Sons (Australia) Limited  
Nomura Australia Limited  
Northern Territory Treasury Corporation  
NRG Flinders  
NSW Treasury Corporation  
OCBC Bank  
Optiver Australia Pty Ltd  
Origin Energy  
OzForex Pty Ltd  
QIC  
Queensland Treasury Corporation  
Rabobank Australia Limited  
Rio Tinto Limited  
RMB Australia Limited  
Royal Bank of Canada  
SFE Corporation Limited  
Snowy Hydro Limited  
Societe Generale Australia Branch  
South Australian Government Financing Authority  
St George Bank Limited  
Standard Chartered Bank  
Stanwell Corporation Limited  
State Electricity Commission of Victoria trading as  
Vicpower Trading  
State Street Bank and Trust Company  
Sumitomo Mitsui Banking Corporation, Sydney  
Branch  
Suncorp Metway Ltd  
Sun Retail Pty Ltd  
Tarong Energy Corporation Limited  
Tasmanian Public Finance Corporation  
Telstra Corporation Limited  
TFS Australia Pty Ltd  
The Australian Gas Light Company



The Royal Bank of Scotland plc  
The Toronto Dominion Bank Australian Branch  
Travelex Limited  
Treasury Corporation of Victoria  
Tricom Futures Services Pty Ltd  
TRUenergy Pty Ltd  
Tullett Prebon (Australia) Pty Limited  
UBS AG, Australia Branch  
United Overseas Bank Limited  
Victoria Electricity P/L  
Western Australian Treasury Corporation  
WestLB Sydney Branch  
Westpac Banking Corporation  
Yieldbroker Pty Limited

#### AFFILIATE MEMBERS

Australian Prudential Regulation Authority (APRA)  
Australian Securities & Investment Commission (ASIC)  
Australian Taxation Office (NSW)  
AXISS Australia  
Chamber of Commerce and Industry Western Australia  
Essential Services Commission of South Australia  
International Capital Market Association (ICMA)

Melbourne Centre for Financial Studies  
National Electricity Market Management Company Ltd (NEMMCO)  
Reserve Bank of Australia (RBA)  
VENCorp  
Weather Risk Management Association

#### PARTNER MEMBERS

Allens Arthur Robinson  
Baker & McKenzie  
Blake Dawson Waldron  
Bloomberg LP  
BT (Australia) Pty Ltd  
Clayton Utz  
Corrs Chambers Westgarth  
Freehills  
Henry Davis York  
Johnson Winter & Slattery  
KPMG  
Mallesons Stephen Jaques  
Minter Ellison  
OMX Technology  
Phillips Fox  
Reuters Australia Pty Ltd



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