



Australian Securities *lending* association

## Australian Market Update

**Natalie Floate**

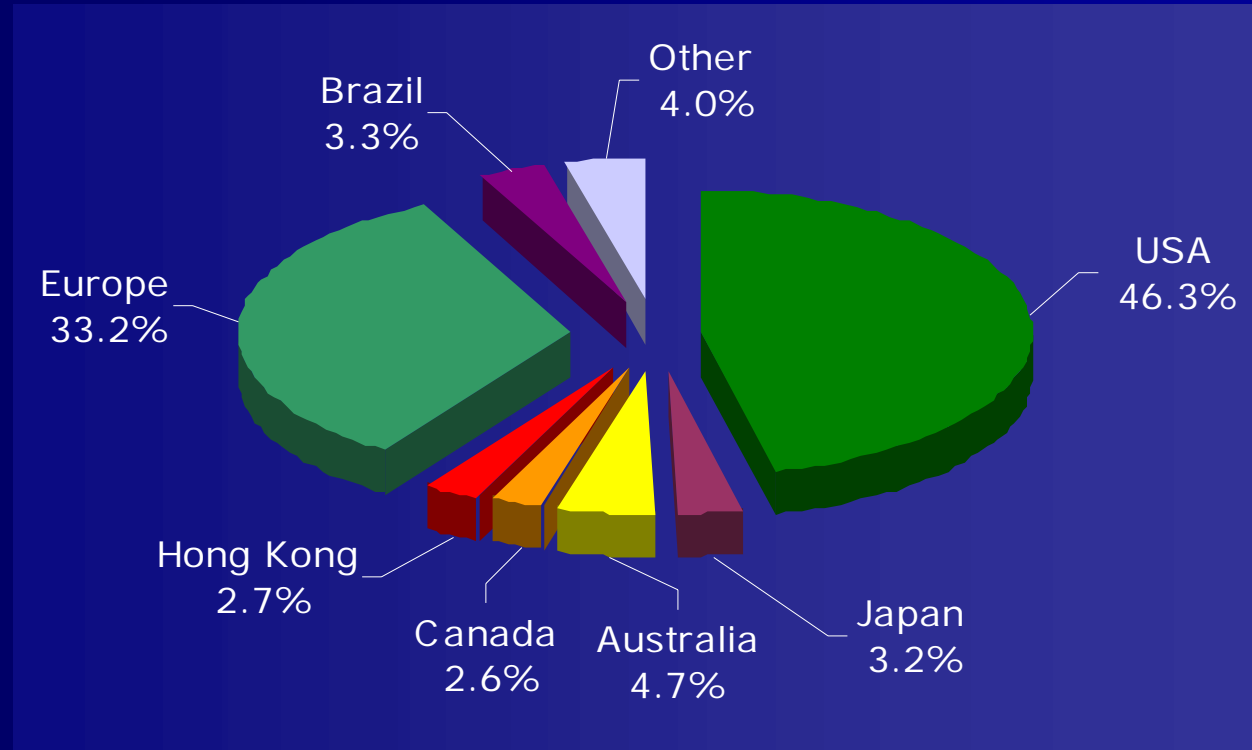
**BNP Paribas**

## The Australian Market Position

- 7<sup>th</sup> biggest foreign exchange market globally
  - USD/AUD 4<sup>th</sup> most active currency pair
- Largest fund management sector in Asia
- 4<sup>th</sup> largest fund management sector globally
- Total Superannuation market to reach \$3.2 trillion in 2022
- Australia to remain the largest pension market in Asia until 2015
- Share of asset allocation to Australian equities is still rising
- 2<sup>nd</sup> largest & most liquid stock market in the region

# Australia's Investment Fund Sector

Australian Market Update



Source: EFAMA Worldwide Investment Assets, End 2007, End of Qtr3

# Australia's Investment Fund Assets

| At the End of | Total     | By Type of Institution |                            |                    |           | By Type of Asset           |                 |                  |           |
|---------------|-----------|------------------------|----------------------------|--------------------|-----------|----------------------------|-----------------|------------------|-----------|
|               |           | Super. Funds           | Life Insurance Offices (1) | Public Unit Trusts | Other (2) | Equities & Units in Trusts | Assets Overseas | Land & Buildings | Other (3) |
| Mar-1992      | 228,091   | 92,411                 | 92,347                     | 22,760             | 20,573    | 48,814                     | 25,313          | 32,829           | 121,134   |
| Mar-1997      | 370,072   | 160,195                | 129,429                    | 53,523             | 26,925    | 108,408                    | 55,378          | 41,039           | 165,249   |
| Mar-2002      | 657,911   | 304,238                | 178,085                    | 129,283            | 46,306    | 233,629                    | 133,669         | 73,233           | 217,381   |
| Mar-2007      | 1,157,225 | 629,076                | 216,819                    | 256,034            | 55,297    | 451,446                    | 249,627         | 127,436          | 328,716   |
| % of Assets   | 100.0     | 54.4                   | 18.7                       | 22.1               | 4.8       | 39.0                       | 21.6            | 11.0             | 28.4      |

(1) Figures include superannuation funds held in statutory funds for life insurance offices.

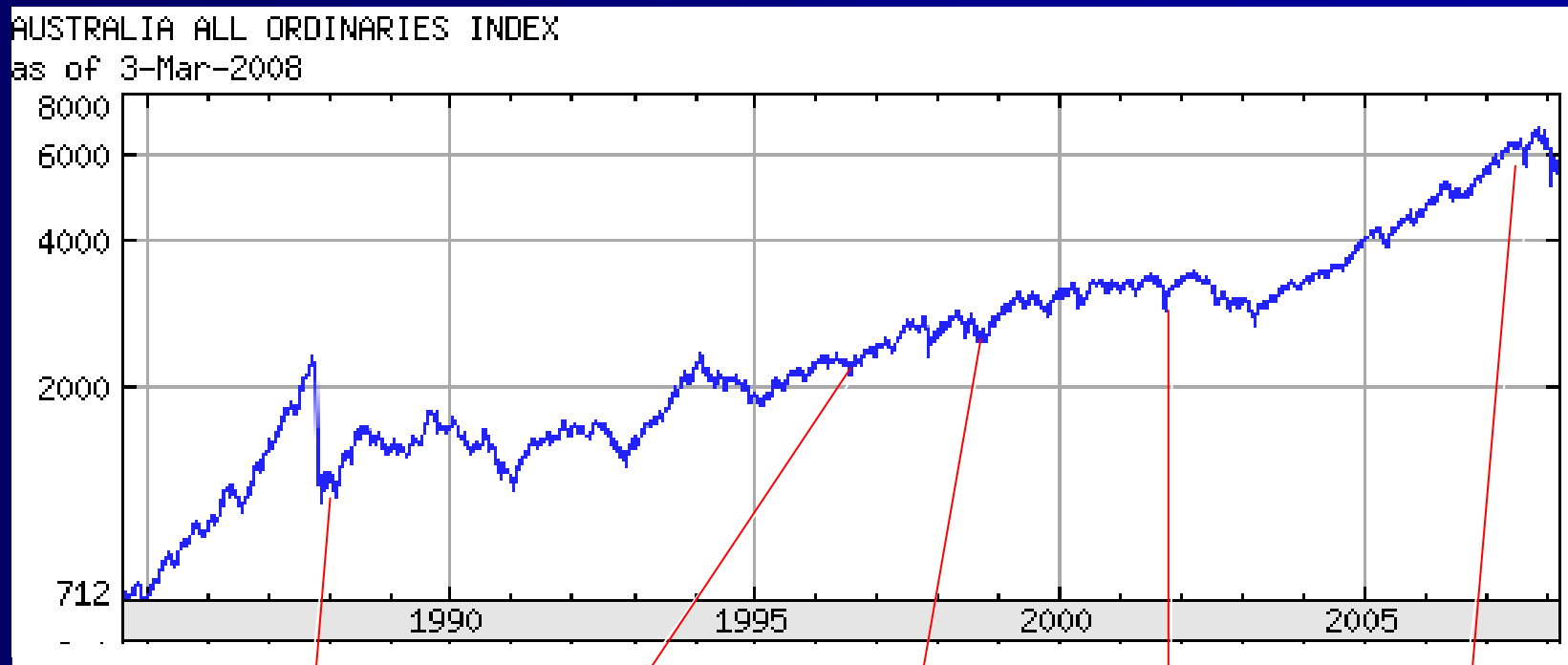
(2) The combined assets of cash management trusts, common funds and friendly societies.

(3) The combined assets of cash and deposits, loans and placements, short-term securities, long-term securities and other assets.

Sources: Australian Government - Department of Innovation, Industry, Science and Research; Benchmark Reports 2007

# The Australian Marketplace

Australian Market Update



1987  
Sharemarket  
Crash

Asian  
Financial  
Crisis

Tech  
Wreck

September  
2001

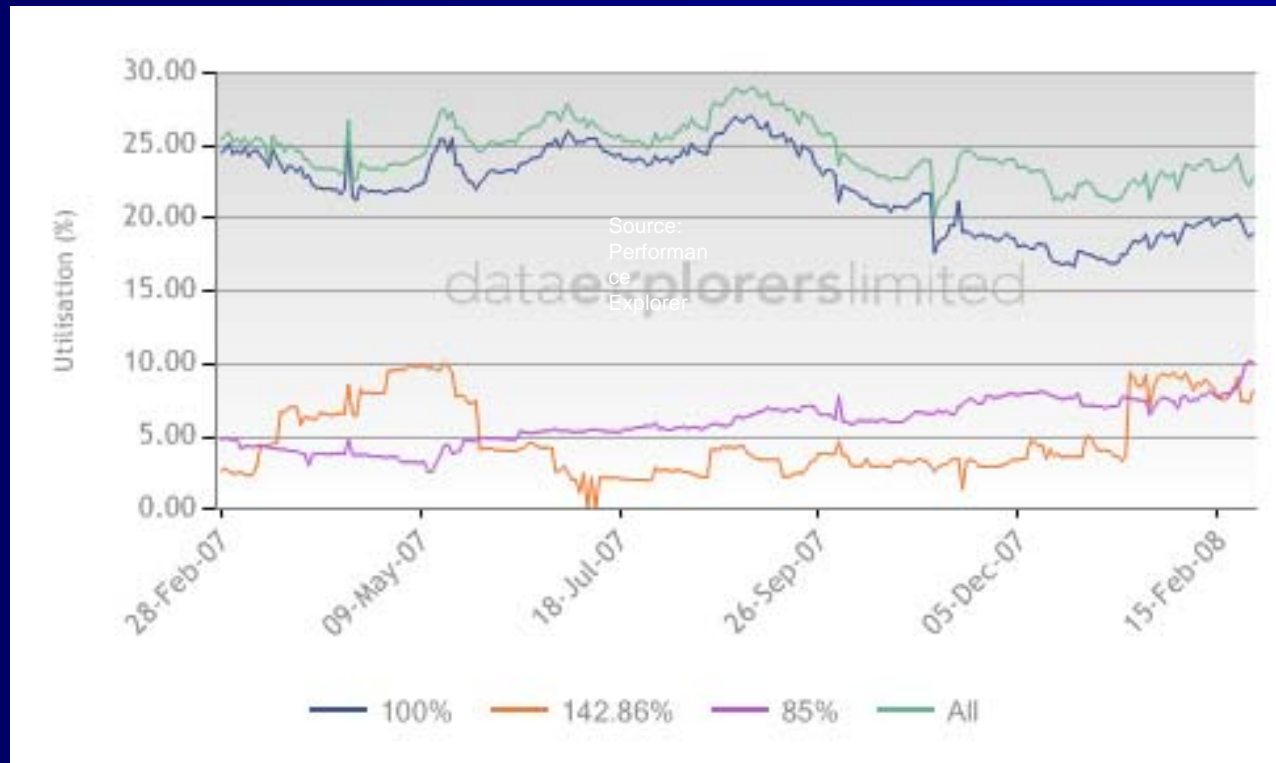
Sub-prime  
mortgage  
crisis

# Securities Lending in Australia

Australian equity activity estimated at:

- A\$345 billion in available balance
- Between A\$95 to A\$185 billion on loan
  - High utilisation
- 2<sup>nd</sup> biggest SL&B market in Asia behind Japan
- 7<sup>th</sup> biggest SL&B market globally

# Securities Lending in Australia



Source: dataexplorerslimited; Performance Explorer

## 2008 to 2009 +

### Australian Market Update

- New Government
- Continued market volatility
- Continued sub-prime write-down announcements
- Global repricing of risk
- Tightening of conditions in global credit markets
- Continued growth in the Securities Lending sector
- Increased use of Securities Lending as a tool to facilitate market transactions
- Potential regulatory review of various market activities
  - Transparency
  - Short selling rules

## 2008: Sudden 'profile' of Securities Lending

*'traders plunder super'* The Australian 16/2/2008

David Bryant, The Australian 16/2/2008 *'..likened the practise (of securities lending) to leaving a car in a car park, which lends it to local hooligans who return it damaged..'*

*'..lend out their securities to short sellers, who then proceed to destroy the value of the underlying securities that the investor owns.'* Paul Fiani, The Australian 16/2/2008

Adele Ferguson, The Australian 16/2/2008 *'..mauling retirement savings'*

Michael West, 28/2/2008 *'evil hedge funds, the sleepy regulators, the ruthless margin lenders...'*

# Need for Market Education & Transparency

*'we support short-selling,  
and we support securities lending'* ASIC Representative 21/2/2008

Malcom Malden, 1/3/2008 *'..short-selling, stock lending and margin lending all have  
important roles to play in the market..'*

*'securities lending has been the saviour of the market in 2008  
so far', volatility would have been more severe without it* Sunday Business 2/3/2008

*" ...convenient for many investors to blame their losses on short selling,  
stock lending, margin lending or hedge funds, but it is barking up the  
wrong tree'* Australian Financial Review 19/2/2008

*'..there is no evidence of any systematic problems..'* Tony D'Allesio, ASIC

*' ..stock lending and short selling are legitimate market practises – not  
sinister siamese twins – that have helped to enhance the liquidity of the  
Australian market to the benefit of all investors.'* Opinion, Australian Financial Review, 19/2/2008



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ASLA