

Press Release

ASLA WELCOMES LIFTING OF SHORT SELLING BAN IN AUSTRALIA

25 MAY 2009 – SYDNEY: The Australian Securities Lending Association (ASLA) today welcomed the decision by the Australian Securities and Investments Commission (ASIC) to lift the short selling ban on financial stocks listed on the Australian Stock Exchange.

The Association, which represents the views of its members on regulatory and other industry issues, says lifting the ban is an important step towards improving overall market liquidity and integrity.

“We applaud ASIC for taking this positive move, which we consider to be in the best interests of all market participants,” said Peter Martin, Co-Chairman of ASLA.

“Enhanced liquidity and a level playing field are integral to an efficient and dynamic equity market, and this move puts Australia back on par with all other major developed markets.”

Securities lending provides an essential source of liquidity to the equities market, and has been an integral part of the efficient operation of the Australian securities markets since the 1970s.

ASLA noted that ASIC has reinforced that the banning of activity such as short-selling remains a tool at its disposal, and that it may wield this in the future without consultation should it feel market conditions warrant such action.

“Any re-imposition will simply fuel ongoing market uncertainty for investors in the Australian market including foreign investors, superannuation funds, funds managers, brokers, dealers and other market participants. For offshore investors in particular, this continued regulatory uncertainty in Australia will limit perceived investment opportunities in Australia compared to other countries,” Mr Martin said.

“Better liquidity is essential to market makers and participants to facilitate various transactions such as risk arbitrage and hedging strategies, statistical arbitrage, index arbitrage, long/short management as well as swaps and basic collateralisation. This liquidity is vital for market makers to fulfil their role, in addition to securities lending’s original role in providing coverage for failed settlements thereby ensuring greater market efficiency.”

“We are confident that the continued efforts towards transparency by the broker sector and participants across the market will mitigate the need for this type of remedial action.”

Improved transparency

ASLA support the views of other industry bodies such as the Investment and Financial Services Association (IFSA) and the Australian Custodial Services Association (ACSA) in the promotion of discussion and actions that contribute to market liquidity, efficiency and fair market pricing without compromising the need for the highest levels of market integrity, competitiveness and investor confidence.

To this end, ASLA has been consulting closely with the RBA on a new disclosure regime in the equities securities lending market to improve transparency. The changes are part of the RBA’s new *Financial Stability Standard for Securities Settlement Facilities* imposed earlier this year. Key features of the new disclosure regime include the following:



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- ASX will require all transactions related to securities loans to be 'tagged' when they are submitted for settlement - this will be implemented in early October 2009, after the required system changes have been made;
- participants in the settlement facility will be required to report outstanding securities borrowed and loaned directly to ASX; and
- ASX will publish data on securities loan transactions and the stock of loans outstanding on a daily basis.

A pilot of the new regime is due to commence shortly, with full implementation planned for the end of December 2009. ASLA continues to work with the RBA and to participate in the new reporting arrangements.

Mr Martin said the new regime would reinforce the important role securities lending played in the efficient functioning of the market.

"Transparency is the key issue for the securities lending sector at present. We continue to work actively with regulators and participants to assist with increased transparency and further stabilisation of markets for the benefit of all investors."

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About The Australian Securities Lending Association

The Australian Securities Lending Association was formed in 1991 to give securities lending industry participants a unified representation in regulatory and other issues relevant to its members. In addition to ASLA's role of assisting regulatory development, the Association also promotes standardisation through the industry in terms of documentation and market practice. ASLA currently represents 33 organisations across the spectrum of investment banks, custodian and commercial banks, brokers, legal firms and information technology providers. Further information can be found at www.asla.com.au

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Editors Notes:

Securities lending: How it works

Securities lending is the temporary transfer of securities from a lender to a borrower against collateral securities or cash. The securities lending market provides liquidity to the equity, bond and money markets, reducing the cost of trading and benefiting all market participants. The ability to lend and borrow securities underpins the services that securities dealers offer customers and the trading strategies of dealers, hedge funds and asset managers.

Pension plans around the world, including many Australian superannuation funds, have participated



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in securities lending programs for decades, as do Central Bank/Government entities, Insurance companies and funds. Lending programs are the mechanism providing liquidity in the market by bringing the suppliers – asset owners such as super funds – to meet the demand in the market for securities.

The lending of securities is an agreement between the beneficial owner of the securities – usually a superannuation fund – and a borrower. Lending is via an Agent Lender which is typically a Custodian but in some cases may be a third party or the beneficial owner directly.

The Agent Lender then lends shares and other forms of securities to a range of market players in return for a fee. This fee is traditionally split between the owner and the custodian.

In many cases the Agent Lender indemnifies the lender against the failure of the borrower to return the securities. Loans are typically fully collateralised, with strict controls over the monitoring and maintenance of this collateral. Collateral can take various forms including cash and other securities, as determined by the super fund or other institutional lending client. Securities lending transactions are generally collateralised at 100% plus excess collateral as margin, and marked to market on a daily basis to minimise the impacts of market increases on the secured position.

Further, oversight of counterparties is also crucial: lending is primarily to world-class broker/dealers, who meet stringent credit criteria for the lending agent, who is traditionally risk-averse.

Checks and balances

Many ASLA members are Custodial Agent Lenders who have been providing custody services locally and globally for hundreds of years, have extensive checks and balances in place, and are subject to regular internal and external audits of controls and processes used to support the safekeeping of customer assets.

These ASLA members ensure that assets are safeguarded whilst in custody. Where positions are lent through securities lending program procedures, systems and controls are in place to track the movement of securities and receipt of collateral from borrowers received against the loaned securities. Securities lending programs do not impact the quality of the safekeeping provided by the ASLA members or the control environments employed.

Super funds are net buyers of assets and securities lending facilitates key benefits in today's market such as transparent price discovery and the ability to take advantage of sophisticated investment strategies such as 130/30 funds and long/short funds, which have become an increasingly mainstream part of a risk-controlled investment strategy.

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