

5 October, 2010

Heidi Gaussen
Regulatory and Public Policy
ASX Ltd
Level 7, 20 Bridge Street
Sydney NSW 2001

By email: Heidi.Gaussen@asx.com.au

Dear Ms Gaussen

AQUA CONSULTATION PAPER AND REQUEST FOR COMMENT

The Stockbrokers Association of Australia Limited (“the Stockbrokers Association”), as the peak industry body representing institutional and retail stockbrokers and investment banks in Australia, is pleased to provide comment in relation to the AQUA Consultation Paper and Request for Comment circulated by ASX.

The Association’s members have a strong commitment to maintaining the integrity and high standing of Australia’s securities market, and holds that the highest value should be afforded to this objective. The Association also supports initiatives to foster Australia as a regional financial centre, including those identified recently by the Australian Financial Centre Forum. The Association believes that together, these should be the guiding considerations applied in assessing the proposals put forward in the AQUA Consultation Paper.

The Stockbrokers Association welcomes ASX’s attention to reviewing the Rules governing the AQUA market and to improve the range of products available to be traded on it and to enhance its appeal as a trading platform.

Set out below are a number of comments regarding the proposals generally:

1. Proposed changes to the Definition of ETF

There is no objection in principle with expanding the definition of ETF to include investments in the nature of collective investments other than those registered in Australia or exempted by ASIC, provided that there is no reduction in the level of protection afforded to holders of such investments.

Registered Management Investments under the Corporations Act will have minimum statutory provisions and protections applying to holders of such investments, and ASIC exemptions will be granted, and overseas jurisdictions recognized, on the basis of availability of similar protections.

In our view, extending the definition to similar investments in overseas jurisdictions more generally should be subject to there being no reduction in these protections, otherwise there may be potential damage to the reputation and standing of the ASX's markets and the perceived quality of its traded products. Any damage could impact not just on the AQUA market but could spread to ASX's markets generally.

2. Quotation of AQUA Products over unquoted debt securities of listed companies or government and their derivatives

The Stockbrokers Association notes the recent final report of the Australian Financial Centre Forum entitled "Australia as a Financial Centre – Building on Our Strengths". We draw attention in particular to the finding at page 39:-

"If Australia is to develop into a leading financial centre that provides liquid and efficient financial services across a broad range of products and asset classes, then a more diversified and liquid bond market should be part of that vision. As the Australian financial sector becomes more internationalised, and as the need for non-bank corporate debt financing within the region increases, Australia could potentially play a role in future years in facilitating that issuance and in managing Asia-Pacific corporate debt portfolios. There are also potential flow-on effects for the listing of derivative products on Australian exchanges. While such ambitions are long-term ones, there seems little doubt that the enormous growth potential in the Asia-Pacific region and the implications of this for the development of higher quality corporate bond issuance could provide opportunities for Australia."

The Stockbrokers Association supports moves which will further these objectives. The AQUA proposals have the potential to provide an additional market segment to augment the moves by ASIC to expand the market for listed bonds.

The Association stresses the importance of any market in debt products to be liquid, in order that investors, particularly retail investors, to exit the investment where needed. The events related to the Global Financial Crisis have indicated the problems that can arise for investors generally, but for retail investors in particular, when funds are frozen for lengthy periods.

In addition, the requirement for the pricing of the underlying debt instrument to be robust and transparent is critical to both the perceived quality of the product and to potential liquidity.

3. Disclosure

The Association does not make comment on the practicality or otherwise of the additional disclosure requirements to issuers of AQUA products. In principle, having regard to the Association's guiding principles set out above, the additional disclosure proposals relating to structured products, compliance with Rule 10A2.1, and to the use of Indices, should be beneficial to investors in assessing the quality of the products quoted and should assist in liquidity.

We would be happy to discuss any issues relating to this matter at your convenience. Should you require any further information, please contact Peter Stepek, Policy Executive, on (02) 8080 3200 or email pstepek@stockbrokers.org.au.

Yours sincerely,



David W Horsfield, MSAA
Managing Director/CEO