



HISTORY OF

STOCKBROKERS IN AUSTRALIA

Since their origins in coffee-shop meetings of stockbrokers in London and Amsterdam four centuries ago, most stock exchanges around the world were structured as mutual organisations of stockbrokers.

Formed in 1987, the ASX (and its predecessors) was owned and controlled by and operated on behalf of its members under its own constitution and operating rules. Its members were the stockbrokers who used the Exchange to deal in the securities of businesses and governments. They were either corporations or firms that were licensed stockbroking organisations, or individuals who were senior employees or directors of stockbroking organisations. Stockbrokers had to be members of stock exchanges and stock exchanges had to ensure that their members were of good character and conduct themselves accordingly when trading on an exchange.

ASX demutualised in 1998.

Following demutualisation, the right to trade on the ASX was available to appropriately qualified and financially sound firms, whether or not they were previously members of the ASX.

Access to the market was based on a contract between the ASX and stockbroker firms who would be known as participants of the exchange. Those contractual arrangements did not require any ownership interest in the ASX. The ASX's altered relationship with stockbrokers was recognised by the *Corporations Law Amendment (ASX) Act 1997* that ensured the ASX continued to be responsible for the conduct and integrity of Market Participants trading on the ASX and in related activities.

ASIC takes over supervision of the market

In 2010 Chi-X (now Cboe) commenced operations and supervision of the market moved from ASX to ASIC by way of *Corporations Amendment (Financial Market Supervision) Act 2010* which provided ASIC with:

- the function of supervising domestic Australian market licensees (that is, Market Participants and Market Operators), and

- the power to make and enforce market integrity rules.

Stockbrokers are now governed by the ASIC Market Integrity Rules, the operating rules of the various Market Operators such as ASX, Cboe and NSX and the Corporations Act.

For an applicant to be eligible for membership as a Market Participant of ASX, Cboe and NSX they must be a body corporate.

In 2011 ASIC made Market Integrity Rules for capital, by incorporating them into then existing rulebooks.

ASIC is responsible for supervising compliance with the Market Integrity Rules which cover:

- the operation of Market Participants and their representatives
- client relationships
- trading
- capital requirements – these capital and reporting requirements apply to Market Participants and are contained in the ASX Market Integrity Rules (Capital). They impose requirements on Market Participants to take into account the risks associated with operating a Market Participant business and impose minimum Core Capital, Liquid Capital and Total Risk Requirements
- technological and operational resilience.

Exchanges (ASX, Cboe, NSX etc) set their own operating rules and are responsible for monitoring and enforcing compliance with them.

A Market Participant is required to have appropriate compliance policies and procedures to ensure it and each person involved in its business comply with the Market Integrity Rules, the operating rules of each relevant market and the Corporations Act. All persons involved with a Market Participant's business in connection with the relevant market must be of good fame and character and high business integrity.

Clearing participants must comply with the clearing and settlement facility's capital and reporting requirements that are contained in the ASX Clear Operating Rules and Procedures.

Good fame and character requirements in place since 1887

Until the introduction of the NSW Securities Act 1975 the Sydney Stock Exchange was completely self-regulating. The Melbourne Stock Exchange was self-regulated until the *Stock and Sharebrokers Act of 1937*.

Formalised self-regulation of the Sydney Stock Exchange began in 1887 when it developed its own rules as a legal framework for share trading. The rules restricted membership of the exchange to those who met certain criteria based on honesty and efficiency. This was a mechanism used by the stockbroking industry to ensure that the public perceived that stockbrokers were of good fame and character and acted with the highest business integrity. The exchange also adopted listing requirements for companies.

On its formation in 1987, ASX initially comprised 693 members: 66 being organisations. On formation all members who had joined one of the six regional exchanges prior to 13 December 1985 automatically became members of the ASX. Prospective members applying for individual membership after this time still had to meet qualifying criteria to ensure the applicant was of good fame and character and of the highest business integrity. For a corporate applicant, the non-member directors and any substantial shareholders also needed to be recognised by the board as being of good fame and character.

Timeline of stockbroking and exchanges in Australia



Early share trading began with Matthew Gregson (1828) and William Barton (1835), the father of Australia's first Prime Minister, acting as share brokers.

From the 1850s, numerous stock exchanges were formed in cities such as Melbourne, Bendigo and Ballarat. All of these were short-lived.

1882 First official call of the newly formed Hobart Stock Exchange.

1884 The Brisbane Stock Exchange was established, a set of rules drawn up and the first call was conducted.

The Stock Exchange of Melbourne was formed by a small number of sharebrokers following a number of attempts to form a lasting stock exchange over the previous 32 years.

1885 The Broken Hill Proprietary Company Limited (BHP) listed in 1885.

1887 First meeting of the Stock Exchange of Adelaide was held on 3 October.

1889 The Stock Exchange of Perth opened its doors for trading in July.

The Australian Associated Stock Exchanges, the forerunner to the ASX, was established. Initially exchanges in Adelaide, Brisbane, Hobart and Sydney were part of the association, with Melbourne and Perth joining soon after.

The auction-based call system of trading was fully replaced with the post trading system at the Sydney Stock Exchange, allowing continuous trading throughout the day. Other state exchanges followed soon after.

The Australian Options Market was established by the Sydney Stock Exchange, providing the first marketplace outside North America for a new investment instrument – Exchange Traded Options (ETOs).

1990 Securities & Derivatives Industry Association (predecessor to SIAA) formed.

1996 CHESS (Clearing House Electronic Subregister System) replacing manual settlement of trades, became fully operational.

1998 ASX became the first exchange in the world to demutualise and directly list on itself on 14 October 1998.

Share certificates were completely replaced by electronic clearing and settlement of trading – a process called dematerialisation on 31 December 1998.

1999 ASX introduced third-party clearing which enabled Market Participants to operate exclusively as traders or as clearers. ASX transformed from offering trade only services to offering the entire process of trading, clearing and settlement under one roof.

2010 Chi-X Australia (now Choe) commenced operation in Australia. As a result, ASX's role in market supervision passed to ASIC.

2011 ASIC made Market Integrity Rules for capital, by incorporating them into then existing rulebooks.

Early 1800's

1880's

1937

1950

1976

1990's

2010's

1870's

The Sydney Stock Exchange formed in 1871 and continued to operate until it merged with the other five state-based exchanges to form the ASX on 1 April 1987.

The Sydney Stock Exchange implemented Business Rules for stockbrokers governing their trading and relationships with customers. Other state exchanges followed this example. The original Business Rules comprised 17 rules on 6 pages. Today's ASX Operating Rules book is approximately 500 pages long.

Early 1900's

1903 The first interstate stock exchange conference was held in Melbourne. Sydney, Brisbane, Melbourne and Adelaide Stock Exchanges were represented.

Meetings were held annually till the 1930s when the arrangement was formalised.

1915 The Commonwealth Government began offering government bonds to the Australian public via exchanges.

1938

Through the AASE, the exchanges gradually brought in common listing requirements for companies, uniform brokerage and other rules for stockbroking firms. Ground rules for commissions and the flotation of government and semi-government loan raisings were also set.

1960

Formal qualifications accredited by the Securities Institute of Australia were required for stockbrokers.

1980's

1984 Deregulation of Australian securities industry.

1986 High Court decision in *Daly v. The Sydney Stock Exchange Limited* confirmed that stockbrokers owe a fiduciary duty to their clients.

1987 The Australian Stock Exchange (ASX) was formed on 1 April, through incorporation under legislation of the Australian Parliament.

ASX's Stock Exchange Automated Trading System (SEATS) introduced in October, the day before the global stock market crash.

2000's

2000 National Stock Exchange of Australia established in February 2000.

2004 Sydney Stock Exchange obtained a stock exchange licence in August 2004.

2006 ASX merged with Sydney Futures Exchange expanding its product range to include index options, interest rate securities, energy and agricultural commodities. Changed its name to Australian Securities Exchange.