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ASIC Market Supervision Cost Recovery Arrangements July 2013-June 2015

ASX is writing in response to a request for comments on the amendments to the ASIC cost recovery arrangements. ASX notes the final arrangements are consistent with the Government's cost recovery policy, and:

- the model involves relatively minor, but useful, adjustments to the cost-recovery arrangements;
- the reweighting of the message based portion of the fees has, after other adjustments were included, only added around $270,000 per annum to that portion of cost recovery;
- the costs to be recovered are $5m lower following the tender for the new ASIC surveillance system; and
- the ASX 24 market model (quarterly fee on the market operator) has been extended until real-time data is added to the ASIC surveillance system and the Government consults on activity-based cost recovery.

There is, however, one issue that ASX wishes to raise.

There has been confusion in the media about the section of the Cost Recovery Impact Statement (CRIS) CRIS dealing with the effects of market competition (Appendix A, pp31-32). That section has been quoted as indicating that ASIC has estimated that the introduction of competition in cash equity trade execution has delivered savings of over $300 million to end clients.

We understand that this is a misinterpretation and there was no attempt in the CRIS to measure to the impact of competition on spreads. The text of the CRIS should be amended to remove any potential ambiguity that may misinform public debate.

The $300 million figure is calculated based on an observed decline in bid-ask spreads. There is a more compelling case that the decline in market volatility (average daily change in the All Ordinaries Index more than halved between the two periods) was a primary driver in narrowing spreads. As the CRIS notes, the decline in spreads was larger across all stocks than it was for the top 200 stocks (which is where the focus of competition has been to date). This is not surprising given the spreads for many of those top 200 securities are already trading at the minimum tick and in the period under review the lit market share of the alternate market platform averaged only 4 per cent.

Moreover, one should be careful to ascribe any spread narrowing as a benefit to end investors where this is driven by market fragmentation. ASX understands that fund managers are concerned that fragmentation increases their total cost of execution as large orders take longer to execute. The spread does not seem to be a major concern to them.

Yours sincerely

Amanda Harkness

Amanda J. Harkness
Group General Counsel & Company Secretary