COMMERZBANK

Commerzbank is a committed market maker for about 600 ETFs in Europe, and trades on nearly 1,000 in total exclusive of cross- & multi currency listings. Commerzbank is in the process of developing it ETF market making desk in Asia, based out of our Hong Kong office.

Please find our answers to some of the questions of the consultation on Market Supervision and Competition Cost Recovery.

9/ Do you consider that the cost recovery arrangements for equities market supervision costs (for ASX listed securities) should be amended so that beneficial market making activity (subject to strict eligibility criteria) is subject to a reduced cost recovery levy for message based charges? If not, is there an alternative method to prevent the cost recovery arrangements creating a disincentive to undertaking beneficial market making activity?

We firmly believe that market making is beneficial to the market as it provides liquidity and continuous pricing for assets whose intrinsic liquidity is non existent. Beneficial market making activity should indeed be subject to strict eligibility criteria, but should be favoured, rather than punished.

Market making requires a lot of orders to be sent, just to animate the market for 1 single ETF. Any message based charges to ETF market maker will hurt the liquidity of the ETF concerned, as the market maker will have to widen their spread, in order to take it into account.

It's fairly common practice for a lot of stock exchanges in Europe and Asia to partially or fully exonerate market maker of exchange fee, levy and other stamp duties.

Moreover, any fees based on the number of message would badly hurt market making activity, as a market maker's number of message is function of the volatility, and cannot really be controlled, other than by widening the bid offer spread to limit the number of "refresh". This would obviously hurt the liquidity and price attractiveness of the Australian listed ETFs, for instance, for investors.

Being new-comers, we could not really estimate or mitigate this risk, and we would be forced to avoid the Australian market entirely.

10/ Do you believe we should recognise beneficial market making in the fees regulations and if so, how do you believe we should set the criteria and conduct the process to define beneficial market making activity?

As expressed above, we really believe in the positive impact of beneficial market making for a market (in terms of both liquidity and price attractiveness). In order to

protect this impact, we would strongly advise to recognise the status of market maker in the fee structure.
We think the criteria should reflect the commitment of the market maker for both liquidity and price attractiveness. So we would recommend requirements both in term of size shown, and in terms of bid-offer spread (on an underlying by underlying basis).

11/ Should firms that benefit from such a discount or exemption be subject to strict, enforceable obligations? If so, what obligations would be appropriate and how should they be enforced?

Yes. As described above, we believe strict criteria in terms of both amount offered (liquidity) and bid-offer spread (price attractiveness) should be introduced, and that on a continuous basis (no off days).
On the other hand we would advise that the bid offer spread sizes could be increased in cases of “fast market” (like on the HK market) for a limited time, with a limited number of periods of “fast market” per month, for instance. These “fast market” periods would be provoked by the market maker if they find themselves temporarily incapable or uneasy about fulfilling the normal MM criteria.

12/ What impact would the approach referred to in question (9) have on your business model? Can you provide examples of how the proposed approach would affect your business in dollar terms?

Our market making business is in its infancy, so it is hard to put dollar figures on the effect it would have.
For us, the question is:
If we can price it in advance, and reflect it in our bid offer spreads levels, we will.
Otherwise, we will not be able to get involved on the Australian market at all, as far as market making is concerned.

13/ Do you consider that the cost recovery arrangements should be changed so that fees are fixed by ASIC prior to the start of each billing period? Why/why not?

As a market maker, we include all our costs in our bid offer spread. Knowing in advance the cost per instruction / trade is therefore of paramount importance for us. If we have to estimate part of our trading costs**,** we would need to facture the uncertainty into our prices, or totally fail to enter the market, which would result in a loss of liquidity and worse prices for the investors.

14/ If you agree with the approach referred to in question (13) what, if any, oversight or safeguard arrangements, including notice periods, would you consider appropriate in relation to this process? If you disagree with the approach referred to in question (13), what alternatives do you believe would be appropriate?

We are strongly advocating a fixed cost structure defined ex ante, in order for the market maker to be able to price it in its spreads.

15/ If you agree with the changes referred to in question (13), do you agree that ASIC should set the fixed fees on a quarterly basis. If not, what other arrangement would be appropriate?

Quarterly basis is perfectly appropriate.