15 November 2002

Ms Ruth Smith
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Ms Smith

Compensation for Loss in the Financial Services Sector

IBSA takes this opportunity to comment on Treasury's Issues and Options Paper on Compensation for Loss in the Financial Services Sector. This should be taken only as a preliminary response to some obvious issues. The need to deal with several other Government inquiries at present has meant that we have not been able to fully consult with our members and give detailed consideration to all of the issues raised in the consultation paper. We note there will be further stages in the consultation process and we would be pleased to engage in more detailed follow-up discussions with Treasury at the appropriate time.

IBSA represents 39 investment banks and securities companies operating in Australia, predominantly foreign-owned and engaged in the wholesale banking market, although some IBSA members also provide retail financial services. Please see investment banking profile enclosed.

In principle, IBSA supports the concept of compensation for retail investors who may suffer loss as the result of wrongdoing by a financial services licensee. This would supplement a range of measures in legislation and ASIC regulation that are the primary means of investor protection and would serve to protect investor confidence in the market.

Compensation arrangements need to be:

- Carefully targeted to safeguard the interests of investors that most need regulatory protection without placing unwarranted costs on licensees;
- Relative to the scale of the identified problem, with a definite limit on the liability for a financial services licensee to fund the arrangements;
- Separately funded by financial market sectors on the basis of demonstrated need, thus minimizing the risk of moral hazard and cross-subsidisation.

Establishing appropriate compensation arrangements will pose a challenge when the new financial services licensing regime is still in the implementation phase and the extent of the problem is unclear.

The new licensing regime introduced under the Financial Services Reform legislation should, if its objectives are realised, be successful in raising the standard of financial services delivery in Australia while minimizing the incidence of wrongdoing by financial service providers and agents at the expense of their customers. The new regime managed by ASIC is complemented by prudential supervision by APRA, trade practices law monitored by the ACCC, stock exchange rules administered by the ASX and various finance industry self-regulatory codes – making a stronger web of protection for investors. The regulatory regime may be open to further change in this area; for example, recommendations flowing from the HIH Royal Commission may address some investor/client compensation issues.

The consultation paper acknowledges (Page 17) that even before the introduction of the new licensing regime, evidence of consumers suffering financial loss is "patchy". ASIC prosecutions are relatively few and appear to be have been necessary mainly in the case of investment advisers and insurance brokers.

Against this background, we offer general comment on several key issues raised in the consultation paper.

Broad Statutory Scheme

We do not favour a broad statutory scheme if it would mean that high-risk business operations would be subsidised by other financial sector participants. Apart from the cost distribution issues, this approach would also introduce an undesirable degree of moral hazard. The obligation on licensees under Chapter 7 of the Corporations Act to provide a means of compensation should be proportionate to the degree of risk of fraud or failure in their area of business; for example, stockbroking, banking, funds management, investment advice and insurance broking all attract different levels of risk.

However, there may be a case on administrative efficiency and consumer certainty grounds to operate a combined scheme with the level of contribution set according to the degree of risk evident in the relevant business sector. For example, on ASIC's figures, it appears there may be more need for compensation in the fields of investment advice and insurance broking than in banking or stock broking. Alternatively, the establishment of sector specific fidelity funds could be an appropriate way for licensees to meet their responsibilities under the Act.

In any event, all licensed financial service providers should be required to maintain professional indemnity insurance, which would provide a base level of protection for all investors. However, we acknowledge that this view may need to be tempered to take account of feedback from industry on the availability and cost of professional indemnity coverage.

National Guarantee Fund

We do not support widening access to the National Guarantee Fund (NGF). This should continue to be applied to the purposes for which it was formed (subject to the proposed split of the NGF into fidelity and settlement support components) and for which contributions to the NGF were made by stockbrokers over many years. The NGF should not be made available to cover licensees that have not contributed to the fund or services that were not previously covered by the fund.

If a broad statutory scheme is to be established, then the fidelity element of the NGF should be wound-up and the amounts returned to the current contributor base, if this is practically feasible. A levy would be necessary to create the new fund and NGF contributors could use their rebate to finance their levy charge.

Coverage

Compensation should apply only to retail investors and not to wholesale investors. This would be consistent with the policy framework that underpins the Financial Services Reform Act and the Government's general approach to corporate regulation. As outlined in the CASAC consultation paper, wholesale investors are better able to both assess and manage risk than retail clients and they are generally better placed to pursue legal redress.[1] In addition, certain wholesale providers are exempt from the requirement to hold a financial services license.[2]

The definition of retail client may be refined through the CLERP 9 process, but seems certain to remain pitched at a conservative level and provide adequate coverage of small, unsophisticated investors for compensation purposes.

Coverage of a compensation scheme should be limited to the conduct of financial services licensees and should not cover circumstances where providers are not properly licensed for an activity. In addition, compensation should only be available for losses from a failure by a licensee to carry out its duty and obligations where property has been entrusted to it.

As the Options Paper indicates, compensation should not be provided for advice that has a reasonable basis and is given in good faith that leads to loss of investment value due to market movements.

Caps on Compensation Scheme Payments

The Options Paper questions the need for a cap of payments made to individual investors by a compensation funds and the form that a cap might take (Chapter 10). We believe that it is appropriate to set a cap on compensation payments to ensure that costs are kept at a reasonable level and maintain investor vigilance at an adequate level.

We do not have a considered view on the precise form of the cap, but rather suggest that ASIC should propose caps based on its experience once the principles covering the design of a compensation scheme have been established. For example, it may prove necessary to limit compensation below the cap; that is, a set percentage of the claimed loss. The standard in the EU is 90% of the loss up to a limit of E20,000, but the trade-off between the percentage loss and the cap would need to be appropriate for the Australian market.

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[1] CASAC Consultation Paper; *Retail Client Compensation in Financial Markets*.
[2] See s.911A(2)(g) and (h).

Limits on Licensee Funding of a Compensation Scheme

From IBSA's perspective, it is imperative that there is a limit on the exposure of individual financial services licensees to any proposed compensation fund. In other words, there should be a realistic cap on an individual licensee's required contribution to fund a compensation scheme. This would not diminish the effectiveness or capacity of the scheme, within reasonable parameters, but it would prevent the introduction of a serious obstacle to the efficient structuring of the business of financial services licensees.

By way of explanation, we wish to draw your attention to the problems that arise from the unlimited exposure of Australian Stock Exchange (ASX) participating organisations (that is, stockbrokers) to the NGF.

IBSA is presently discussing with ASX changes to its business rules to permit ADIs and branches of foreign banks and securities companies to become participating organisations on the Exchange. A number of IBSA domestic and foreign owned members have sought a change to the ASX Business Rules to permit their ADI units to become ASX participating organisations; that is, they wish to conduct their ASX broking activity through their ADI.

Members have identified a range of commercial benefits from this initiative that would strengthen their business and improve their efficiency. For example, financing programs could be amalgamated to reduce funding costs and compliance costs could be significantly reduced, along with other administrative and operational savings. However, while there are strong commercial grounds to support this initiative (see attachment 1), the main barrier to change at this point is APRA's concern about the unlimited exposure of ADIs to the NGF as a consequence of becoming a participating organisation.

In particular, APRA has stated a firm principle that it will not allow ADIs to accept an open-ended liability. Therefore, given the open-ended nature of brokers' potential liability to the NGF, APRA will not allow ADIs to become ASX participating organisations. APRA is resolute in this view, even though for all intents and purposes there would be a practical limit on an ADI's exposure and the cumulative amount paid by the NGF since its inception in 1987 ($21.4 million gross, $8 million net) is small relative to the capitalisation of individual ADIs.

A contributions cap is necessary to support a competitive operating structure for the financial services industry in Australia and facilitate its ongoing development. This can be put in place without detriment to the interests of retail investors.

This is an important issue to IBSA members and we would have sought an amendment to the NGF rules in the absence of the Government's wider review of compensations arrangements for the financial services sector.

We strongly recommend that there should be a definite limit on the liability of a financial services licensee to contribute to any compensation scheme that emerges from the current review.[3] We also request that the Government signal its intention

[3] The contribution could still be related to business size, so the limit would vary across licensees.

in this regard at the earliest opportunity, so the industry can move towards its most efficient operating structure without further delay.

APRA Supervised Providers

The Options Paper does not consider depositor guarantee arrangements, but other services provided by ADIs are within the scope of the paper. In this context, the capital adequacy requirements, expert risk management processes etc that support the depositor protection provisions in the Banking Act, together with the high level of external market scrutiny, significantly limit the risk of persons transacting with ADIs. It may also be argued that APRA supervised entities are more likely to uphold high standards of conduct and less likely to be exposed to claims for compensation. This is supported by industry self-regulation through the Australian Banking Industry Ombudsman, which provides an effective avenue for redress for personal and small business customers.

While they may be compensation issues to be addressed in other industry sectors, the regulatory arrangements for ADIs are adequate and do not require supplementary measures. This militates against the introduction of a broad based scheme. If such a scheme were contemplated, as stated above, contributions to such a scheme should be risk-weighted and APRA supervised entities should pay proportionally less to reflect their high standing within the financial community.

Concluding Comments

I hope that our comments are of some assistance to you, as you continue to work on the development of the Government's policy in this area. We look forward to the release of more detailed proposals in the future and would be pleased to discuss these issues with you when convenient. In the interim, a clear signal from the Government that it will place a limit on individual licensee contributions to any compensation scheme would be welcome, as it would help facilitate industry restructuring to deliver greater efficiency.

Yours sincerely

Duncan Fairweather
Executive Director

INTERNATIONAL
BANKS AND SECURITIES
ASSOCIATION OF AUSTRALIA

Internal Briefing Note

Participating Organisations on the Australian Stock Exchange

16 May 2002

The ASX Business Rules stipulate certain requirements that impose particular structures on Participating Organisations of the ASX. Bank groups and securities companies in particular operate through several different entities in order to conduct their different lines of business, for example, branch operations may be used for corporate banking and a separate subsidiary operation for stockbroking.

The division of business across many operating entities creates commercial inefficiencies that increase business costs, including the cost of funding. Barriers to the efficient organisation of banking and securities businesses have encouragingly been reduced through tax reform and other measures. However, as these have been removed, limitations inherent in the current ASX Business Rules have become more apparent and the need for reform of them is more urgent.

The following sections illustrate the need for the ASX to modify its capital liquidity rules in order for both domestic and foreign banks and securities companies to participate on the ASX without having to set-up special entities to do so.

Section 1 - Foreign Participants on the ASX

1.1 Background

Foreign institutions have a major presence in Australia's financial markets and play an important role by engendering competition, enhancing consumer choice and broadening the base for financial stability. For a variety of practical taxation and regulatory reasons, foreign bank groups have historically conducted their business through a number of separate operating entities. For example, several foreign banks have had a branch operation to conduct corporate banking and treasury business and a subsidiary to conduct their broking business as a member of the Australian Stock Exchange (ASX), as well as other operating entities.

1.2 Foreign Banks and Brokers as ASX Participating Organisations

The requirement for foreign banks and brokers to conduct their broking activities through a subsidiary adversely affects key broker participants on the ASX markets. Foreign owned brokers account for 8 of the top 10 brokers in terms of market share of turnover in 2001. Five of the top 10 brokers are associated with a licensed foreign bank branch that operates in Australia and a licensed domestic investment bank owns another broker. Reflecting their strong presence in the market, foreign owned brokers also account for the majority of equity raised on the Australian capital market.

Table 1

Leading Brokers on the ASX

	Turnover – Market share %		**Equity Raising A$ mn**
UBS Warburg	10.1	UBS Warburg	4,116
Merrill Lynch	9.4	Macquarie Bank	2,476
Salomon Smith Barney	9.0	JB Were	1,728
Deutsche Bank	7.9	Citigroup/Salomon Smith Barney	1,371
JB Were	7.8	CSFB	1,192
CSFB	6.8	Merrill Lynch	1,168
Macquarie Bank	6.6	Deutsche Bank	710
ABN Amro	5.4	ABN Amro	587
JP Morgan	5.2	JP Morgan	566
Morgan Stanley	3.3	Wilson MTH	142

Source: Turnover - IRISS (reported in *Australian Financial Review*); Equity raising - Thompson Financial.

The parent entities of these foreign brokers are amongst the largest financial institutions by market capitalisation in the world. Many of the parent entities are members of stock exchanges in other jurisdictions.

1.3 Modifications to ASX Business Rules

IBSA believes that the ASX capital liquidity rules for participating organisations should be modified to remove the practical barriers to foreign entities participating through a branch and that this initiative should be given a high priority.

The necessary rule change should be feasible, as it has been possible to adjust the more demanding prudential regime for ADIs to accommodate branch banks and, in addition, the Sydney Futures Exchange (SFE) permits branch membership. Foreign banks are not granted an ADI branch licence by APRA unless they satisfy stringent conditions in regard to their management and prudential controls that they must satisfy, amongst other things. On an ongoing basis, the bank must be able to demonstrate that they maintain appropriate systems to control, monitor and manage risk exposures in their operations and must adhere to prudential requirements set down by APRA.

ASIC has acknowledged the effectiveness of the regulatory approach to foreign branch ADIs in PS 166, which exempts them from the financial resource requirements that holders of an Australian Financial Services Licence must otherwise satisfy. It seems appropriate that the ASX should adopt a complementary approach in its Business Rules, especially given the range of other financial protections afforded investors under the Financial Services Reform Act.

It would also make sense to recognise overseas securities regulatory regimes that satisfy a high standard. Indeed, the Financial Services Reform Act provides for these to be recognised in the context of Financial Services Licenses. This approach would, for example, permit a broker that is a member of the London Stock Exchange to conduct branch operations in Australia without the need to satisfy Rule 1A on the basis that the parent entity meets the regulatory requirements of the Financial Services Authority.

In 2001, the ASX implemented an initiative to remove some regulatory impediments to foreign participating organisations; for example, by permitting supervision and control to be managed by specific senior executives rather than by directors based in Australia. These changes facilitate the participation by foreign organisations from an overseas base. However for foreign banks to obtain the benefit of these changes, it is necessary for ASX to amend its capital liquidity rules to accommodate prudential regulation by an appropriate body such as APRA or a foreign regulator which imposes a capital regime consistent with the Basic Capital Adequacy Framework. ASX has taken steps to recognise other prudential supervision regimes for participants for the purposes of the ASX futures market. It should therefore be prepared to do so in the context of its securities market.

The precise form of the necessary rules changes should be established through industry discussions with the ASX, ASIC and APRA – all of whom have a direct interest in a balanced outcome. However, it seems reasonable to expect that the approach the ASX adopts in its Business Rules should be consistent with APRA's approach to foreign branch ADI regulation and accept competent overseas prudential supervision of the parent entity as meeting the requirement for capital adequacy.

ASIC agreement to the ASX rules changes would likely be necessary and the regulators would need to have an agreed view on the regulatory management of an ADI branch that was an ASX participating organisation, including information exchange and responsibilities in certain events.

1.4 A Changing Market Environment

Regulation

Regulation must generally be carefully balanced to maximise the performance and benefit from financial markets and maintain international competitiveness of the markets. The regulation of the stock exchange, as a central capital market, is important in this regard.

A key objective of the recently implemented Financial Services Reform Act, which revamps the regulation of Australia's financial markets, is to put in place a regulatory regime that is world's best practice, thereby enhancing the efficiency of regulation and improving Australia's international competitiveness as a place to conduct business. There are still important issues to be resolved (eg insider trading) before we can achieve this. However, it is important that the Government delivers the regulatory security and market integrity that market participants expect, while minimising unnecessary increases to business and compliance costs.

This is an evolving process and the Act does not address all relevant issues in this regard. The ASX has an important role as a co-regulator in the framework of the

Act and there are areas of the Exchange's regulation that could be modified to good effect. In particular, it is possible to both enhance regulatory protection and increase the efficiency of regulation by permitting banks (including investment and foreign branch banks) to become participating members of the exchange.

Competition

Internationalisation of financial markets continues, with growth in cross-border transactions and participation by foreign entities in domestic markets. For example, Australian retail investors can now more readily access investments in US share markets via facilities in Australia (like ASX's World Link) and overseas. In terms of providers, Australia's financial system is very open by international standards, with a strong presence of foreign owned banks and securities companies. At the same time, the ASX is actively developing alliances and links with overseas exchanges.

The regulatory framework is predicated on a paradigm that envisages competition between financial markets, as well as between providers in those markets.

Against this backdrop, it is in some senses a case of having to run fast to stand still for markets like the ASX. It is important that the regulatory overlay on the market is effective in facilitating the optimal business strategies for the ASX and its broker participants, within the boundary of accepted regulatory standards. In order to retain global and regional relevance, the ASX needs to ensure that its market operates as efficiently as possible. The rigidities inherent in the ASX's capital adequacy regime increase the costs to foreign banks of conducting their securities business in Australia, compared to other jurisdictions whose capital liquidity requirements can accommodate banks.

Taxation

Tax reform measures in the areas of thin capitalisation and consolidation remove some significant barriers to the rationalisation of foreign business operating structures in Australia. The elimination of many tax disadvantages to the conduct of business through branch operations is notable in this regard and the Government is extending the sunset clause of the Financial Corporations (Transfer of Assets and Liabilities) Act to June 2003 in order to facilitate money market corporations that now wish to become foreign branch ADIs. Along with regulatory reform, these changes create opportunities to restructure organisations and groups on the basis of their commercial business drivers, as distinct from tax anomalies or regulatory rigidities.

1.5 A Response: Broking through Branch Operations

Securities companies and brokers are under significant pressure to build on group synergies to develop their business, cut operating costs and optimise their use of capital. One potential response that investment banks are actively seeking is to place their stockbroking operations in a branch structure. Benefits to the conduct of a foreign broker's business through a branch include:

- It would permit the broker to take advantage of the parent bank's balance sheet and draw on its capital and resources;

- It would permit the broker and associated business units operating in an ADI branch to amalgamate finance programmes and reduce their funding costs;
- It would generate operating efficiencies (eg in processing), new opportunities and improve marketing capabilities (eg clients need conduct only one credit risk assessment);
- It would better facilitate business through more flexible counterpart dealing limits and provide better market exposure, especially to overseas investors;
- It would enable better integration with both local and global operations of the parent bank, and promote opportunities for Australian offices to operate as regional processing hubs;
- It would lower regulatory compliance costs by permitting a single capital adequacy regime to apply to the securities and banking business of banks in Australia;
- It would lower administration costs for banks by enabling entity rationalisation, which in turn would eliminate duplication of tax, accounting and reporting requirements.

It is noteworthy that licensed banks have utilised overseas branches to conduct their operations in response to the pressure for greater efficiency and competitiveness. For example, in Australia, 36 of the 50 licensed banks are foreign owned and, of these, 24 are branches (compared to two in the early 1990s). In short, the Australian experiment with foreign branch banking has been highly successful in terms of numbers established. Significantly, branches have helped to bring global business to Australia that would not otherwise be based here because this structure overcomes organisational and regulatory rigidities that otherwise would have swamped our natural economic advantages.

The utilisation of branches in the securities industry is much less frequent than in banking. However, seemingly similar commercial drivers are evident there, though the context of their presentation is different. This would suggest an increased attention on branches as a means to develop securities business and improve its efficiency.

1.6 ASX Business Rules a Barrier

The ASX capital liquidity rules for participating organisations are a regulatory constraint to the optimal operating structure for some foreign bank groups in Australia. Foreign entities can become a participating organisation through a branch, but this would require the global organisation, rather than just the participating branch, to satisfy the ASX liquidity reporting rules. From a practical perspective, this is not a realistic proposition, as foreign brokers' global management and regulatory information systems are not designed to satisfy the ASX regulatory requirements (the Australian operation typically would account for a very small proportion of its global business). Thus, foreign entities are constrained to conduct their stockbroking business through a subsidiary and separately from their branch business.

1.7 Reasons Supporting Change

There are a variety of reasons to support changes to ASX's capital liquidity rules, apart from the business interests of foreign-owned brokers.

From the ASX's perspective:

- Given that foreign owned brokers account for a substantial portion of the ASX's turnover, it would ensure that the ASX's clearing and settlement system is supported by better capitalised entities than it is today if the parent entities can be participants;
    - Business risk in the market would be reduced, as foreign branch participant organisations would automatically draw upon the full financial strength of their global parent, which is far greater than that of a local participating subsidiary financed primarily or in part with subordinated debt;
    - Foreign broker branches could assist the long-term integration of the ASX with key overseas exchanges; for example through mutual recognition of regulated participants;
    - The change has the potential to broaden the ASX participation base by facilitating organisations that may not wish to create Australian subsidiaries and by better utilising the client reach of existing foreign members;
    - It may encourage foreign brokers to enter the clearing market and act as third party clearers because they could leverage off their large balance sheets.

From a policy perspective:

- It would assist ASIC to meet its regulatory objectives, as the financial stability of a key capital market would be enhanced as some foreign-owned participants could fully draw upon the strength of their parent organisation;
- It would improve the competitiveness of Australia as a location from which to conduct financial business – there is an established trend for global business to be conducted through branch operations to build on commercial benefits, including more efficient use of capital;
- It would bring closer to reality the regulatory consistency sought under the Financial Services Reform Act, as both SFE and ASX participating brokers could operate through a branch framework.

Section 2 – Domestic Bank Participants on the ASX

2.1 Background

Domestic banks typically conduct their stockbroking activities through a subsidiary, often with one for retail stockbroking and another for wholesale stockbroking. For the purposes of the ASX Business Rules, some banks also have another subsidiary that is a Registered Independent Options Trader (RIOT).

This structure exists as a direct consequence of the current regulatory structure and imposition on domestic banks. The impositions come predominantly from the ASX, in terms of their requirements of Participating Organisations, and from APRA and its regulation of ADIs. The relevant subsidiaries have significant capital, sub-debt and funding positions and exposures to their parent bank as a consequence of their normal business activities.

2.2 Domestic Banks as ASX Participating Organisations

Domestic banks could benefit significantly from being a Participating Organisation of the ASX.

Conglomerates/Exposure to Subsidiaries

APRA imposes constraints with respect to the exposure a parent bank has to its subsidiaries, impacting on the volume of business it can conduct in its subsidiary entities. Under the current regulatory environment it is not feasible for the ASX to attempt to supervise an ADI's entire business (that is, not simply its broking business). The ASX Capital Rules, in particular Rule 1A, would also not be acceptable if applied to ADIs.

The proposed APRA conglomerates rules will likely have a material impact on a domestic bank's capital base because of deductions relating to investments in its subsidiaries. As a Participating Organisation, a domestic bank will be able to reduce its exposure to its subsidiaries and improve the capital base.

Client Credit Exposures

If a wholesale stockbroking business is conducted in a domestic bank, there is a potential to reduce its client credit exposures through netting (eg against treasury or other business transactions). Such a reduction is not available when balances are created in separate legal entities.

Legal Structure

Most domestic banks are also executing and clearing members of the SFE. In some cases, they may also belong as bank branch members of overseas exchanges, such as the London Stock Exchange. It is anomalous, in that sense, that a domestic bank cannot conduct its Australian equities broking business directly. One difficult consequence is that clients are forced to deal and settle with different entities, which from a commercial perspective, creates unnecessary confusion.

All of a domestic bank's equity risk positions (house trading) could be executed and managed in a single legal entity if it was admitted as a Participating Organisation. Underwriting, facilitation and RIOT activities could all be moved into the parent bank, assisting in risk management at the broad level.

Client Credit

In some case, a domestic bank's client raises questions about the size and adequacy of the bank's subsidiaries' capital bases, frequently requesting credit support from the parent bank itself.

Cross Margining

If a domestic bank could conduct clearing for its exchange traded options (ETOs) business, cross margining could be introduced against other derivatives (in particular, futures). Clients could then hold a single derivatives clearing account for futures and ETOs through a single entity.

Clearing Opportunities and Business Structures

If domestic banks could become ASX clearing participants (and hence a CHESS participant) there would be an opportunity for a banking entity to offer third party clearing services. This has the potential to improve efficiency in the settlement system and lower operating costs, allowing smaller brokers to minimise issues associated with current capital rules.

Security in Structured Transactions

ADIs that provide margin lending services or who hold equities as collateral under secured finance arrangements must do so via a third party broker participant of CHESS or operate a non-broker participant in CHESS. There are significant costs and legal issues associated with this. The legal and operating structure would be simplified if ADIs could become CHESS participants. They could also offer same entity execution services to their clients.

RIOTs

Currently, it is necessary for domestic banks to operate their RIOT entities as a separate legal entity as the ASX Business Rules state that a RIOT cannot hold shares in its clearer.

Trust Accounts

There may be scope to eliminate trust accounts and simply settle against a client's bank account, which is also the client's broker account.

2.3 Issues

National Guarantee Fund

ADIs' exposure to the National Guarantee Fund will have to be considered.

Principal Trading v Agent Trading

For retail brokers who also undertake house trading there could be significant issues with current rules, which restrict payment of commission on crossings. While not being an issue necessarily confined to the ADI status as a Participating Organisation, it would be a by-product of rationalisation.