Developments in the Financial System Architecture

International regulatory efforts over the recent period have focused on finalising the reforms to the key capital and liquidity standards for banks and other deposit-taking institutions. The reforms aim to increase the resilience of the global banking system and ensure greater financial stability, by requiring banks to have more, and better-quality, capital and hold larger amounts of liquid assets than prior to the crisis. The changes represent a major overhaul of the standards under which banks will operate. The reform efforts have been led by the Basel Committee on Banking Supervision (BCBS) and its oversight body, the Group of Governors and Heads of Supervision (GHOS). The Reserve Bank and APRA are members of both groups. Key details of the reforms were announced by GHOS following its meetings in July and September 2010. The final package of reforms is scheduled to be presented to the November 2010 G-20 Leaders' Summit in Seoul before being published by the BCBS in December 2010.

As discussed in the March 2010 *Review*, the reforms will, over time, have the effect of tightening global financial conditions by reducing bank leverage and maturity transformation. The challenge has been to get the right balance between the benefits of increased global financial stability (in particular, the reduction in the probability of financial crises in the future and the reduced output losses associated with such crises), and the perceived costs for the wider economy of tighter conditions. This is especially relevant at a time when economic growth in some economies has been lacklustre. With this in mind, the BCBS, in co-operation with other bodies such as the Financial Stability Board (FSB) as well as national authorities, has undertaken a series of studies to estimate the likely impact of the changes on banks and the wider economy, including a quantitative impact study (QIS). That work suggests that the transitional effect of this tightening in conditions on economic growth is likely to be modest.[7] It also found that the long-run benefits substantially exceed the potential output costs for a range of higher capital and liquidity requirements.[8]

These studies, as well as the feedback on the BCBS' December 2009 reform proposals, especially from national regulators and the banking industry, were important inputs into the modified package of capital and liquidity reforms that was recently released. A key difference from the December 2009 package is that the reforms will be phased in over a substantially longer period than the original implementation date of end 2012. The studies have also been crucial in assisting the calibration of key standards. For example, the new minimum capital ratios will for the first time include an explicit minimum ratio for common equity to risk-weighted assets, of 4.5 per cent. In addition, banks will have to hold a 'capital conservation' buffer of 2.5 per cent to withstand future periods of stress, bringing the total effective requirement for common equity – the highest form of loss-absorbing capital – to 7 per cent.

There have also been developments in other regulatory areas, largely under the auspices of the

7 FSB/BCBS Macroeconomic Assessment Group (2010), *Assessing the Macroeconomic Impact of the Transition to Stronger Capital and Liquidity Requirements*, Interim Report, August.

8 BCBS (2010), *An Assessment of the Long-term Economic Impact of Stronger Capital and Liquidity Requirements*, August.

FSB, and other Bank for International Settlements-hosted committees, with the G-20 providing overall impetus. A common theme in much of this work is to ensure that all systemically important institutions, instruments and markets are subject to appropriate oversight. Regulators are continuing their efforts to enhance the oversight and regulation of non-bank financial institutions, such as insurers and non-regulated entities, and to strengthen the core infrastructure, such as payment and settlement systems. The key items on the international financial regulatory agenda and some implications for the financial regulatory framework and developments in Australia are outlined below.

The International Regulatory Agenda and Australia

Strengthening the capital framework for ADIs

Since the previous *Review,* significant progress has been made in finalising global reforms to strengthen the resilience of banks. The capital proposals, known as 'Basel III', seek to increase the quality, quantity and international consistency of capital (especially Tier 1 capital) and to discourage excessive leverage and risk-taking. The reforms represent a major enhancement of the capital framework for banks, though this on its own should not be seen as a substitute for other improvements, such as, to banks' own risk-management practices.

An important issue that has only recently been agreed relates to the 'calibration' or setting of the **new minimum regulatory capital requirements**. Currently, the Basel Accord capital requirements for banks are a Tier 1 capital ratio of 4 per cent of risk-weighted assets and an overall capital ratio of 8 per cent. The key components of these minima have been increased, as the recent crisis showed that many banks had insufficient capital (Table 7). Further, in order to improve the quality of banks' core capital, a new explicit minimum requirement has been established for the common equity component of Tier 1 capital (also known as core Tier 1 capital); that is, the component that is truly loss-absorbing.

As foreshadowed in the March 2010 *Review*, the **definition of capital** will be changed to ensure that common equity – that is, common shares and retained earnings – will be the predominant form (75 per cent) of Tier 1 capital. Hybrid capital instruments with an incentive for the issuer to redeem will be phased out and certain lower-quality items that currently qualify as Tier 1 capital (such as deferred tax assets that arise from timing differences, mortgage servicing rights and investments in minority interests) will be partly excluded from the common equity component of Tier 1 capital. These changes essentially mirror the BCBS' reform proposals that were announced in December 2009, but have been revised to allow a limited amount of these lower-quality items to be included in Tier 1 capital. In making this allowance, the BCBS was

Table 7: New Capital Requirements
Per cent

	Common equity	Tier 1 capital	Total capital
Minimum	4.5	6.0	8.0
Conservation buffer	2.5		
Minimum plus conservation buffer	7.0	8.5	10.5
Counter-cyclical buffer range[(a)]	0 to 2.5		
Leverage ratio		3.0[(b)]	

(a) Common equity or other fully loss-absorbing capital
(b) The proposed leverage ratio will be tested using Tier 1, but the impact of using common equity and total capital will also be tracked
Source: GHOS

persuaded that fully deducting these items could have potentially adverse consequences for particular business models and provisioning practices, and may not appropriately take into account evidence of realisable valuations during periods of extreme stress.

The changes to the definition of capital will affect banks' capital ratios, with the preliminary QIS results showing that large banks in certain countries will need, in aggregate, a significant amount of additional capital to meet the new requirement. Given this situation, generous transition periods have been provided for the implementation of the changes to allow banks to meet the higher capital standards through reasonable earnings retention and capital raisings, while still supporting lending to the economy. From 2013, banks will be required to meet new minimum capital requirements for common equity and Tier 1 capital of 3.5 per cent and 4.5 per cent of risk-weighted assets, respectively. These minimum requirements increase in steps over two years, reaching the agreed new calibrations from 2015.

Data provided by Australian banks for the QIS suggest that they are well placed to meet the new capital requirements. This reflects the fact that APRA never ascribed any value to the lower-quality items (such as deferred tax assets) that will no longer fully qualify for Tier 1 capital. Also, APRA has always taken a more conservative approach than in some other countries to the proportion of regulatory Tier 1 capital that should be common equity. Further, Australian banks raised considerable common equity from late 2008 to the middle of 2009. Now that most of the capital reform details and phase-in arrangements have been released, in the period ahead APRA will provide ADIs in Australia with guidance and a timetable for implementation through its usual standard-setting consultation processes. APRA anticipates that it will begin consultation on the reforms in 2011 and that this will continue into 2012.

The reform package also includes the introduction of a **leverage ratio**, to be set at 3 per cent of assets (including off-balance sheet exposures), which will be tested during a 'parallel run' with the existing risk-based measures. The leverage ratio aims to constrain the build-up of leverage in the banking sector and reinforce the risk-based requirement with a simple, transparent, non-risk-based 'backstop' measure. The measure will be based on the proposed new definition of Tier 1, but during the parallel run the BCBS will also track the impact of using common equity Tier 1 capital and total capital. The four-year parallel run period will start on 1 January 2013. Based on the results of the parallel run period, any final adjustments to the ratio would be made in the first half of 2017 before the ratio becomes a minimum capital requirement from 2018.

The Reserve Bank and APRA have previously expressed some concerns that a simple leverage ratio requirement, if binding, could weaken the principle that capital should be allocated against economic risk, and may therefore lead to unintended consequences such as encouraging banks to increase the share of high-risk assets on their balance sheet. Modifications to the proposal have lessened these concerns to an extent. The level of the ratio proposed is such that it would already be met by the large Australian banks, so risk-based capital requirements would remain the binding constraint. The proposal also now involves a lengthy period over which the performance of a leverage ratio will be assessed, giving the BCBS the opportunity to refine it further should that be necessary.

Agreement has also been reached on the proposals to require banks to have **capital buffers** in place – a capital conservation buffer and a counter-cyclical capital buffer, both of which are to apply in addition to the re-calibrated minimum capital requirements.

- The capital conservation buffer would be maintained in normal times, but available to be run down during more stressed periods. It is intended to induce banks to maintain enough capital to absorb the magnitude of losses that a financial crisis might cause and still remain above the minimum requirement. If a bank does run down its buffer, it would have restrictions placed on its earnings distributions, and the closer the bank's capital ratio approaches the minimum requirement, the greater this restriction will be. This buffer will be phased in from 2016 and reach 2.5 per cent of risk-weighted assets in 2019.

- The counter-cyclical buffer is additional to the conservation buffer. It is expected to be set at zero for most of the time, while it would extend the capital conservation buffer by up to 2.5 per cent during periods of excess credit growth, or other indicators deemed appropriate by supervisors for their national contexts. This buffer aims to achieve the broader macroprudential goal of protecting the banking sector from periods of excess aggregate credit growth.

The two buffers are aimed at enhancing the loss-absorbing capacity of a bank's capital, which is underpinned by the requirement that they be comprised of common equity (or other fully loss-absorbing capital in the case of the counter-cyclical buffer). Care will be needed to ensure that the conservation buffer can actually be drawn down in times of stress, without that act being perceived as a sign of instability for the bank. The BCBS is to consider further the operational details for the counter-cyclical buffer in coming months, including feedback on the consultation paper that it released in July 2010.

Capital charges for **counterparty credit risk**, aimed at strengthening the risk coverage of the capital framework, are also to be increased. One aspect of this relates to exposures between financial institutions. Work by the BCBS showed that such exposures were more correlated than exposures to non-financial institutions. As a result, the capital requirement for counterparty exposures to large (assets of at least US$100 billion) or unregulated financial institutions is to be increased by 25 per cent. The increase reflects the inherent higher risk of exposures to other financial entities and helps address the interconnectedness issue between financial institutions. This is one of several measures which act to address the 'too big to fail' problem, especially arising from the often extensive linkages between large complex financial institutions.

The BCBS is continuing work on the design and features of certain **contingent capital** instruments to enhance their loss-absorption. Contingent capital instruments are securities that convert to a pre-specified form and amount of new or higher-quality regulatory capital, typically common equity, if a pre-set 'trigger' event is breached. By providing additional capital to banks in periods of stress, they potentially reduce the probability of bank failure. They could also have a role in meeting a portion of any future capital surcharge requirements on systemic banks. The BCBS is considering the possible role of these instruments in two circumstances, either on a 'gone concern' or a 'going concern' basis, with the difference largely reflecting the trigger mechanism.

- The 'gone concern' proposal involves capital instruments, such as preference shares or subordinated debt instruments, that have contractual terms allowing the instruments to convert to common equity or be written down when an institution becomes 'non-viable'; that is, it is unable to support itself in the private market. The conversion would trigger at the option of the regulatory authority. The BCBS issued a consultation paper on 'gone concern' contingent capital instruments in August 2010 and, following feedback, will review a detailed proposal later this year.
- The 'going concern' proposal is similar, apart from the trigger mechanism. In these cases the trigger would not be at the option of the regulatory authority, rather the conversion would occur when equity falls below some pre-specified level, but well before the bank becomes unviable. Such instruments are already in limited use. For example, in late 2009, Lloyds issued (through an exchange offer) bonds which would convert to ordinary shares if its published core Tier 1 capital ratio fell below 5 per cent. The BCBS will also consider the issue of 'going concern' contingent capital later this year.

Strengthening liquidity risk management by ADIs

The second key aspect of the reform proposals is a range of stricter global liquidity requirements to ensure that bank assets remain prudently liquid in periods of stress, and that banks' funding is on a more sustainable, longer-term basis. The liquidity proposals include requirements based on two new ratios, both of which may reduce the traditional maturity transformation role of banks.

- The liquidity coverage ratio (LCR) requires banks to have sufficient high-quality liquid assets to fund projected cash outflows in a hypothetical 30-day crisis situation.
- The net stable funding ratio (NSFR) requirement aims to match the duration of banks' liabilities and assets more closely by comparing liabilities considered stable (such as deposits and long-term debt) with longer-term assets (such as loans).

The liquidity proposals have been amended in several areas compared with those released in December 2009, which have the cumulative effect of making them somewhat less onerous. For example, for the LCR, assumed rates of certain deposit outflows (or 'run-off' rates) for retail and small business deposits held with banks were lowered, resulting in more funds assumed to remain with the bank during a stressed scenario. Also, outflows of funding by governments and central banks are assumed to be lower than previously proposed, in recognition that, with secured funding in particular, the authorities are likely to continue to roll-over their funding during a time of stress. After an observation period starting in 2011, the LCR will be introduced from 2015.

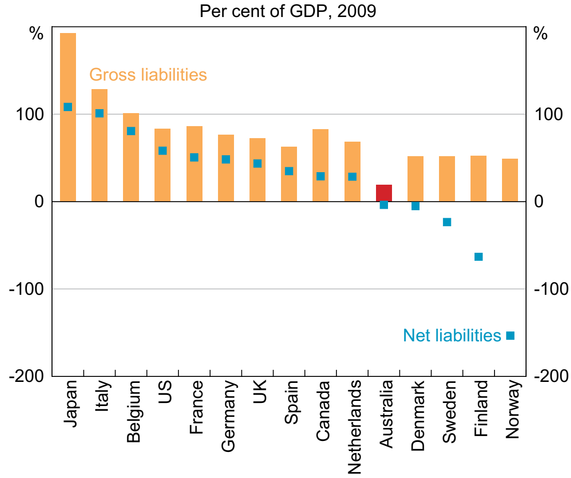
The definition of liquid assets has also been broadened, thereby allowing banks to use more instruments to meet the criteria. In particular, a 'Level 2' category of liquid assets has been introduced, covering certain government and public sector enterprise assets, high-quality non-financial corporate bonds and covered bonds not issued by the bank itself, with the sum of these assets capped at 40 per cent of the total pool of liquid assets. This would be a complement to the Level 1 liquid assets (cash, central bank reserves and high-quality sovereign paper), which make up the remaining 60 per cent. Even so, for Australia and other countries with very low levels of government debt, the definition of Level 1 liquid assets under the LCR is one that is still unworkable, given the low level of public sector securities and other eligible non-bank securities on issue in such countries (Graph 84). In recognition of this, the revised proposal involves the BCBS developing a standard for jurisdictions which do not have sufficient high-quality (Level 1) liquid assets to meet the 60 per cent minimum share requirement.

The NSFR has been modified and its introduction delayed. The revisions largely reflect feedback that the initial calibration was too severe, as well as concerns regarding the perverse incentives it created, in particular that it would favour investment banking over retail banking. There will also be an 'observation phase' before implementation, to address any unintended consequences across business models or funding structures before the revised NSFR is finalised and introduced from the start of 2018.

Graph 84

General Government Financial Liabilities*

Per cent of GDP, 2009



* Projected
Source: OECD

Systemically important financial institutions and supervisory oversight

A further issue under consideration by the FSB is the development of a policy framework for reducing the moral hazard risks associated with systemically important financial institutions (SIFIs). The FSB has been working on policies to manage the risks posed by SIFIs in three ways: (i) improving the capacity to resolve SIFIs without taxpayers bearing the costs; (ii) reducing the probability and impact of a SIFI failure; and (iii) strengthening the core financial market infrastructure to reduce contagion risks if failure occurs. Having released an interim report on SIFIs in June, the FSB will present its final report to the G-20 Leaders' Summit in November.

A key aspect of the FSB's SIFI policy relates to ensuring effective supervisory oversight. This would involve a strengthening of the mandate, powers and resources of supervisory authorities, and more effective supervisory tools and practices. Examples of the latter include the early identification of risks through better data collection, processing and monitoring, leading to stronger on-site and off-site review work, enhanced consolidated supervision, and better co-ordination among home and host supervisors, including through supervisory colleges. Other bodies are also emphasising the importance of supervision. For example, the IMF recently emphasised the importance of an active and hands-on approach to prudential supervision and discussed the key elements of good supervision.[9]

Changed regulatory structures and mandates

The focus on better regulation of institutions and markets has been the impetus for several countries recently changing their regulatory and supervisory structures. An example is the announcement by the UK Government in July 2010 of fundamental changes to the structure of financial regulation there. The Financial Services Authority will cease to exist in its current form. A Prudential Regulation Authority will be created as a subsidiary of the Bank of England to conduct (micro) prudential regulation of sectors such as deposit-takers, insurers and investment banks. The Bank of England will be in charge of broader macroprudential regulation – encompassing financial stability considerations – by establishing a Financial Policy Committee within the Bank. Legislation in the United States allows for the establishment of a Financial Stability Oversight Council, comprising the heads of key regulatory agencies and the US Treasury Secretary, which will identify and respond to threats posed to financial stability from within and outside the financial system. In the European Union, agreement was recently reached on a new European Systemic Risk Board (located in, and supported by, the ECB) which would engage in macroprudential oversight of member countries' financial systems.

The IMF has also recently examined lessons for central banks from the crisis.[10] One such lesson is that financial stability should be primarily addressed using a macroprudential framework that integrates macroeconomic and systemic financial considerations and builds on microprudential supervision. However, in operationalising such a framework, a case can be made that certain 'macroprudential' supervisory tools (such as capital requirements and buffers, liquidity ratios, provisioning and collateral valuation) are, in fact, the usual microprudential tools long used by supervisors. Further, since not all prudential supervisors are entirely and narrowly microprudential in their orientation, responsibility for macroprudential concerns may well best be shared in some jurisdictions.

Bank levies

One of the themes of G-20 discussions has been that the financial sector should make a 'fair and substantial contribution' towards paying for any burdens associated with government interventions, where

9 IMF (2010), *The Making of Good Supervision: Learning to Say 'No'*, IMF Staff Position Note SPN/10/08, May.

10 IMF (2010), *Central Banking Lessons from the Crisis,* Policy Paper, May.

they occur, to repair the financial system and reduce risks. G-20 Leaders recognised that there is a range of policy approaches to this end, with some countries pursuing financial levies and others pursuing different options. To date, only a small number of countries have implemented, or plan to implement, a bank levy. In 2009, the Swedish Government implemented a financial stability fund, funded by an *ex ante* levy, which will be built up and used in times of financial crises for, *inter alia*, liquidity support, guarantees and capital injections. German authorities recently released draft legislation to introduce a levy on banks from 2011, which will be used to finance future bank bail-outs and restructurings that may arise. The UK Government has announced plans for a levy from 2011 on domestically located banks and building societies with aggregate liabilities of £20 billion or more. Money raised is to become part of the general tax stream and is not intended to fund future government intervention. Rather, the levy aims to ensure that the UK banking sector makes a fair contribution that reflects the risks it poses to the financial system and the wider economy, and to encourage banks to move away from riskier funding. The European Commission has proposed that bank resolution funds be established, funded by an *ex ante* levy on banks, to facilitate the resolution of a failing bank in a way that avoids contagion, allows the bank to be wound down in an orderly manner and in a timeframe which avoids the 'fire sale' of assets.

FSB peer review process

As part of its ongoing work for strengthening adherence to international standards, in recent months the FSB has launched two thematic peer reviews. One is reviewing the risk disclosure practices of banks and other financial institutions. It focuses in particular on the implementation of the recommendations concerning risk disclosures by market participants that were made in an April 2008 report by the Financial Stability Forum (the predecessor to the FSB) on *Enhancing Market and Institutional Resilience*. The other review is on residential mortgage underwriting practices; an area of focus given that poor underwriting practices made a significant contribution to the financial crisis in certain countries. The review is surveying existing practices across the FSB membership, including recent actions taken by national authorities to promote sound practices, and will draw internationally applicable lessons. The Reserve Bank is represented on the expert team reviewing underwriting practices.

The FSB has also begun a process of country peer reviews. These focus on the implementation and effectiveness of financial sector standards and policies agreed within the FSB, notably through systematic and timely follow-up to relevant recommendations arising from a recent IMF-World Bank Financial Sector Assessment Program (FSAP). The first country review, on Mexico, was released recently, with Italy and Spain currently undergoing country peer reviews. Australia has volunteered to undergo a country peer review in 2011.

Regulatory framework for the insurance sector

The regulatory framework for the insurance sector is also under review – in particular, the insurance core principles (ICPs) – by the International Association of Insurance Supervisors (IAIS). The principles, and corresponding standards and guidance material, detail various aspects of best-practice insurance regulation, such as licensing, corporate governance and group-wide supervision. They also provide the basis for evaluating insurance legislation, and supervisory systems and procedures. In July 2010, the IAIS issued a consultation paper on the revision of the ICPs. The goal is to have a complete set of revised and restructured ICPs ready for adoption by October 2011. APRA, an IAIS member, is participating in this review.

Also in July, the IAIS began developing its Common Framework for the Supervision of Internationally Active Insurance Groups. This framework aims to:

make group-wide supervision of globally active insurers more effective and reflective of actual business practices; establish a comprehensive framework for supervisors to address group-wide activities and risks; set grounds for better supervisory co-operation to allow for a more integrated and international approach; and foster global convergence of regulatory and supervisory measures and approaches. Consultation on these issues is expected to commence in the first half of 2011.

In June 2010, the IAIS released a statement on key financial stability issues, which recognised that the insurance sector is susceptible to systemic risks generated in other parts of the financial sector. While for most classes of insurance, there is little evidence of insurance either generating or amplifying systemic risk within the financial system itself or in the real economy, the IAIS noted that there are circumstances where insurers may amplify risk. Examples include life insurers aggravating equity market downturns with further stock sales, or where an unexpected withdrawal of capacity may disrupt a sector of the real economy. The IAIS is promoting improvements to supervision, combined with stronger risk management and enhanced approaches to resolvability, in recognition that non-regulated entities within financial conglomerates can generate systemic risk and create contagion within conglomerates or between sectors. As part of this effort, in April 2010, the IAIS published a guidance paper on enhanced treatment of non-regulated entities in group-wide supervision, to support insurance supervisors in addressing some of the key regulatory gaps observed in the financial crisis, and in minimising regulatory arbitrage opportunities.

Separately, in Australia, APRA released a discussion paper in May 2010 outlining its proposals to review and update the **capital standards for general insurers and life insurers**. APRA's intention is to make its capital requirements more risk-sensitive and to improve the alignment of its capital standards across regulated industries, where appropriate.

- For general insurance, APRA is completing the refinements which commenced in 2008. The proposed changes are relatively modest and ensure that all material types of risks, including asset/liability mismatch, asset concentration and operational risks, are adequately addressed within the capital standards.
- For life insurance, APRA is reassessing the capital standards in light of industry changes over the past 15 years and proposing more fundamental changes. The current dual reporting requirements for solvency and capital adequacy will be simplified. The capital structure for life insurers will be aligned more closely with the capital structure for ADIs and general insurers, which should facilitate adoption of APRA's proposed supervisory framework for conglomerate groups that was announced earlier in the year.

In commencing this review, APRA's position was not that current capital requirements for the general and life insurance industries were, overall, either too low or too high. APRA has not set out to achieve any material change in overall industry capital levels and proposals will not be finalised without assessing carefully their likely effect on capital at an individual insurer level and across the two industries. In connection with this, APRA commenced a quantitative impact study to evaluate the impact of the proposed changes on the general and life insurance industries. APRA expects to release draft capital standards by end 2010 or early 2011 and final capital standards later in 2011, to take effect in 2012.

Financial market infrastructure

As reported in previous *Reviews*, policymakers and regulators have been working towards strengthening core financial market infrastructures. One area of focus in this regard has been over-the-counter (OTC) derivatives markets. The FSB and the G-20 have encouraged a co-ordinated international approach to enhance the financial infrastructure in these markets, and improve risk management and transparency. In May 2010, the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) issued consultative reports regarding proposed policy guidance aimed at strengthening OTC derivatives markets. The first relates to the CPSS-IOSCO Recommendations for Central Counterparties and its application to central counterparties (CCPs) clearing OTC derivatives. The second relates to trade repositories for OTC derivatives and their overseers. It is intended that the results of these consultations will be incorporated in the general review of the CPSS-IOSCO standards for financial market infrastructures – namely the Core Principles for Systemically Important Payment Systems, the Recommendations for Securities Settlement Systems and the Recommendations for Central Counterparties – announced in February 2010. A public consultation regarding the results of this comprehensive review of the standards is scheduled for early 2011.

Some national authorities have already made changes in this area. Legislation was passed in the United States requiring greater use of CCPs for OTC derivatives where available, as well as widespread use of trade repositories. The European Commission has released draft legislation concerning similar requirements. In Australia, the agencies represented on the Council of Financial Regulators have been working with industry to encourage greater use of CCPs and other improvements to risk management and transparency in OTC derivatives markets. With the prospect of more CCPs looking to operate in Australia to service the OTC market, in April 2010 ASIC released guidance on the regulation of clearing and settlement (CS) facilities. This addresses, among other things, when an Australian CS facility licence would be required and when an overseas, rather than domestic, licence would be appropriate. The Reserve Bank's approach to assessing the appropriateness of an overseas, rather than domestic, CS facility licence was published in 2009.

Other Domestic Developments

The **Council of Financial Regulators** (the Council) is a forum for discussing important policy development work. At its meeting in September 2010, the Council discussed APRA's liquidity standards and possible ways to operationalise the BCBS' standards for jurisdictions that do not have sufficient Level 1 assets to meet the liquidity standard using these assets alone, or even together with Level 2 assets. The Council also considered reports from a number of its working groups, including those looking at Australia's crisis management arrangements, OTC derivatives and the parameters of the Financial Claims Scheme, which are to be reviewed by the Government ahead of October 2011.

As foreshadowed in previous *Reviews*, on 1 August 2010, ASIC took over responsibility for **supervising real-time trading on Australia's domestic licensed markets**. Previously, this function was performed by the Australian Securities Exchange (ASX). With ASIC as the whole-of-market supervisor, complete supervision of trading on the market is ensured should new trading platforms enter the Australian market. In March 2010, the Government gave in-principle approval for a market licence application by Chi-X, which plans to offer a platform to conduct secondary trading in ASX-listed shares. Final approval of Chi-X's licence is dependent on Chi-X meeting all of the necessary legislative requirements and the finalisation of the regulatory framework for competition between markets for trading equities. ASIC is still in the process of developing new market integrity rules that would apply in a competitive market environment.