
London Stock Exchange Group response to the CFR Consultation on Financial Benchmarks Regulatory Reform

London Stock Exchange Group (LSEG) welcomes the opportunity to respond to the CFR Consultation on Financial Benchmarks Regulatory Reform.

FTSE Russell¹ is the brand name adopted for the index businesses that are owned and operated by LSEG and its applicable group undertakings. LSEG is a diversified international market infrastructure and capital markets business sitting at the heart of the world's financial community. LSEG operates a broad range of international equity, bond and derivatives markets, offers post trade and risk management services, is a global leader in indexing and analytic solutions and a developer of high performance trading platforms and capital markets software.

General comments

We are pleased that the direction the regulatory reforms in Australia are follows broadly the IOSCO Principles for Financial Benchmarks; and the Financial Stability Board's work. This creates conditions for global regulatory convergence – notably aligning the Australian rules with the ongoing process in the European Union (EU), currently in the process of drafting detailed Level 2 rules.

LSEG answers to CFR questions

- Q1-3 (scope): We agree with CFR assessment that there is a need for reform to ensure continued confidence in Australia's financial market's architecture. We support:
 - Bringing the administration of significant benchmarks within the definition of a financially regulated activity and thereby imposing obligations related to audit, governance and conflict management to the standard of the IOSCO Principles. The regime envisaged by the Australian authorities corresponds to the EU "critical" benchmarks category.
 - Imposing binding requirements on submitters, incl. creating a legal power to compel submission to a significant benchmark.

¹ FTSE Russell is a global index leader that provides innovative benchmarking, analytics and data solutions for investors worldwide. FTSE Russell calculates thousands of indexes that measure and benchmark markets and asset classes in more than 80 countries, covering 98% of the investable market globally. FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. Approximately \$10 trillion is currently benchmarked to the FTSE Russell indexes. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks use FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives. A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on applying the highest industry standards in index design and governance, and embraces the IOSCO principles. FTSE Russell is also focused on index innovation and client collaboration as it seeks to enhance the breadth, depth and reach of its offering.

- Adding benchmark misconduct as a criminal offence, with regards to all types of benchmarks.
 - Q4 (scope): We suggest that a hybrid model, e.g. listing specific significant benchmarks and setting out criteria for further assessment, suits best the purpose of the regulation and balances regulatory certainty with flexibility to adjust to the new market conditions. Similar approach is used in the UK.
 - Q5-6 (relations with IOSCO Principles): We are pleased that the direction the regulatory reforms in Australia are taking follows broadly the IOSCO Principles for Financial Benchmarks. In particular we agree with the fact that the administrator could be required to conduct and publish a regular self-assessment of governance and code of conduct (for example, annually) and be subject to regular independent audit which would also be published or made available on request. We have no preference whether the various requirements should be introduced via the “licensing” or “rulemaking” option.
- Q7-8 (regulating submitters): Regarding the options to regulate benchmarks submitters, at least for supervised entities we prefer direct regulation - either via AFSL regime or by adjusting ASIC rulemaking powers. We warn against imposing a requirement on the benchmark administrator to enforce the Code. Such requirement would create an undue burden and could limit the effectivity of the reform. The submitters may be unwilling to sign the code of conduct, or may try to negotiate, which would then have the effect of a reduction in the number of submitters to the benchmark, thereby reducing the reliability and robustness of the benchmark. If the regulation comes from the authorities, there may be less resistance from the submitters. Further, if submitters are to be compelled to submit, it would be logical that regulation comes from the same place (the authorities not the administrator). We agree with the CFR consideration that the requirement on submitters to comply with IOSCO Principle 14 should be limited to significant benchmarks. Such arrangement would also be in line with the EU approach (mandatory contribution only for “critical” benchmarks.
- Q9-13 (compelling submission): We understand CFR reasoning behind developing a regime to compel submission to significant benchmarks, to preserve the existence and credibility of the benchmark. We support introducing a requirement to compel submission to critical BMs, bringing the Australian regime closer to the EU regime for “critical” benchmarks. We believe that both options of incorporating the requirement in the AFSL regime, or expanding ASIC rulemaking powers are sensible. We agree with incorporating conditions in the code of conduct.
 - Q14-18 (benchmark manipulation offences): We agree that any new benchmark manipulation offence should extend to all financial benchmarks. This would work to promote market integrity across all benchmarks, rather than just significant benchmarks.
 - Q19 (costs): LSEG has no comments on the cost-benefit aspect of the proposal.
