The Sydney Morning Herald

Print this article | Close this window

Stockbrokers forced to quit

Mark Hawthorne
Published: December 9, 2010 - 3:00AM

A DECISION by Bank of America Merrill Lynch to stop clearing and settling share trades on behalf of small and mid-sized stockbrokers could squeeze more firms out of the industry.

Merrill Lynch Australia chief executive Craig Drummond has confirmed that Berndale Securities will no longer clear trades for more than a dozen stockbroking firms. Several jobs will be axed as a result of the decision.

Under Australian Securities Exchange rules, stockbrokers can clear and settle share transactions themselves, or engage a third party to do it.

"Berndale will continue to clear trades for our own private clients, and for Evans & Partners as part of our strategic alliance," Mr Drummond said. "There are a handful of others we will maintain a relationship with, but we will no longer be in the business of being a third-party clearer. A small number of positions will have to go as a result of the decision."

Several Australian stockbrokers, including Paterson Securities, Southern Cross Equities, BBY, Argonaut and Stonebridge, will be forced to seek alternatives as Berndale leaves the market.

Following the collapse of Opes Prime and Tricom, the ASX lifted the amount of capital required by broking firms to clear their own shares from $100,000 to $5 million.

That increased capital requirement forced several smaller brokers to stop clearing their own transactions and use third-party companies such as Berndale, US-owned Penson, and Fortis, which is owned by ABN Amro. Third-party clearers must hold $10 million of capital.

The ASX gambled that the third-party clearance industry would grow, but that growth has not materialised.

The decision has infuriated several of Australia's smaller stockbroking companies, but their anger is directed towards the ASX, rather than Merrill Lynch.

"We told [the ASX] this would be the result two years ago," said the managing director of one Melbourne-based stockbroker. "Now we have two overseas companies dominating third-party clearance in this country."

The ASX has delayed the next planned rise in the capital requirement for stockbroking firms, from $5 million to $10 million, until 2013. It cited the "limited development" of third-party clearing and settlement services as a reason for the delay.

The increased liquidity requirement has also led to the rise of non-regulated brokers that trade under an Australian financial services licence (AFSL).

According to the Australian Securities and Investments Commission, more than 500 such companies sell shares in Australia. None are ASX market participants. As a result, they are not subject to ASX liquidity requirements, nor are they subject to ASX market rules and regulations.

"The ASX replicated a well-intentioned consumer protection regulation from overseas," said Ian Pattison of Melbourne-based Chimaera Capital.

"Unfortunately, Australia lacks the depth and breadth of participants of overseas markets. All it has done is force some brokers outside of the ASX's jurisdiction."

Glenn Rosewall, managing director of Sydney-based BBY, said his firm would start clearing trades for smaller stockbrokers operating under an AFSL.

"As far as we're concerned, whether they meant it or not, the ASX and ASIC have made it very difficult for small and medium-sized businesses to survive," he said. "It was almost the [former] Rudd government plan to have fewer larger businesses to deal with. It makes it easier to regulate and to manage."

This story was found at: ***http://www.smh.com.au/business/stockbrokers-forced-to-quit-20101208-18pxx.html***