



16th June 2020

Submissions
Electricity Authority
Level 7, Harbour Tower
2 Hunter Street
Wellington

By email: submissions@ea.govt.nz

Consultation Paper - Hedge Market Enhancements market making consultation paper

Thank you for the opportunity to comment on market making arrangements. Our responses to the consultation questions are overleaf.

OMF is a NZ owned financial services firm, and has operated for over 30 years across a number of different markets.

OMF has been active in the ASX market since inception. We provide execution and clearing services and regularly deal with/for all active participants on the ASX, both big and small. OMF is purely a broker, we do not take any proprietary risk. As an independent participant, we and are motivated to see a well-functioning, robust market with good liquidity that enables all participants to manage risk efficiently.

Please contact me if you have any questions.

Yours faithfully,

Karl Arns – Dealer, Institutional Commodities

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QUESTION ONE: APPROACHES

1(a) Has the Authority correctly described the approaches above? If not, please identify any changes to the approach description.

Yes, the Authority has provided a detailed explanation of each approach.

1(b) Are there any other approaches the Authority should consider? If so, please provide a brief description of the approach and its merits.

No.

1(c) Do you have strong preference or strong aversion to any of the approaches outlined? Please explain your reasoning.

Our **preference** would be for **a mandatory approach with transferrable providers**. OMF is of the view natural participation is an important feature of a well-functioning market. For this reason, the Authority is right to include defined parties. Allowing the obligation to be transferred will lead to greater market efficiency and better price discovery for both ASX contracts and the cost of market making services.

We have a **strong aversion** to the **voluntary approach**. The Authority's progress in finding an enduring solution would be undone if we were to revert to a voluntary approach. The market failings of previous voluntary approaches have been well documented and we see a return to this framework as a step backwards for hedge market liquidity, price discovery and ultimately competition and consumer outcomes.

QUESTION TWO: KEY TRADE-OFFS

2(a) Has the Authority correctly described the trade-offs above? If not, please identify any changes to the trade-offs.

Yes

2(b) Are there any other trade-offs the Authority should consider? If so, please provide a brief description of the trade-off and its importance.

No

2(c) What trade-offs are most valuable to you, and which are the least valuable to you, and why?

We believe the ability to include markets in the design of marking making services is important for the provision and enduring robustness of the scheme. The mandatory approach with transferrable providers includes the market mechanism but also ensures a robust backstop should a market process fail to procure sufficient market making services.

Increasing the number and diversity of market makers will also leader to a more efficient, more robust market whilst simultaneously reducing the costs for those participating market makers.

QUESTION THREE: KEY TRADE-OFFS

3(a) Has the Authority correctly assessed each approach against the key trade-offs? If not, why not?

Yes.

3(b) If you have identified any changes to the approaches or key trade-offs in questions one and two, please provide your assessment of those approaches and/or trade-offs.

No.