
Benchmarking ASX's post-trading services

Cash equity markets

Fod Barnes, Partner
Helen Ralston, Senior Consultant

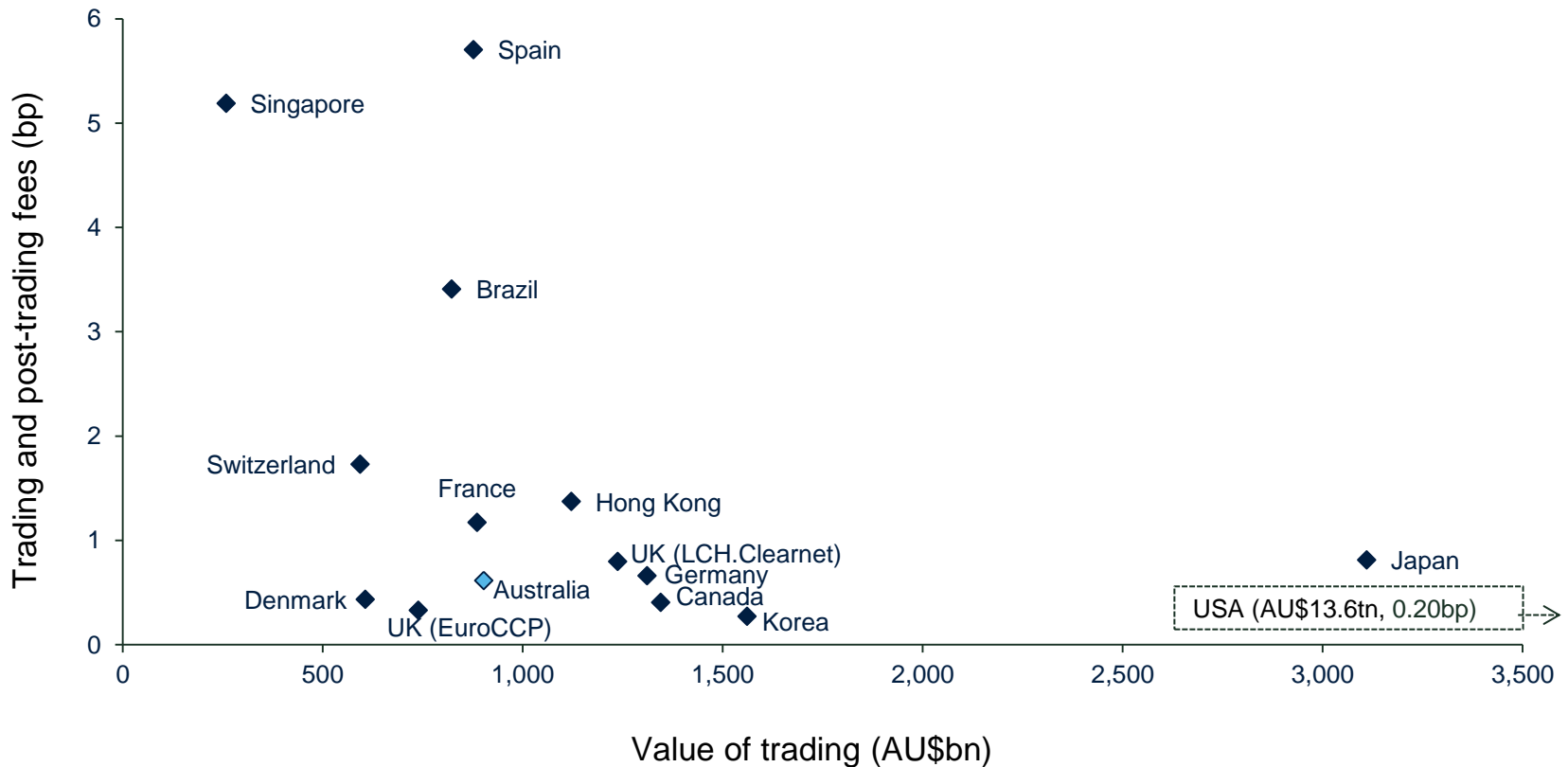
June 2014

Overview

- High-level results
- Methodology
- Detailed results
- Service comparison
- Revenue analysis

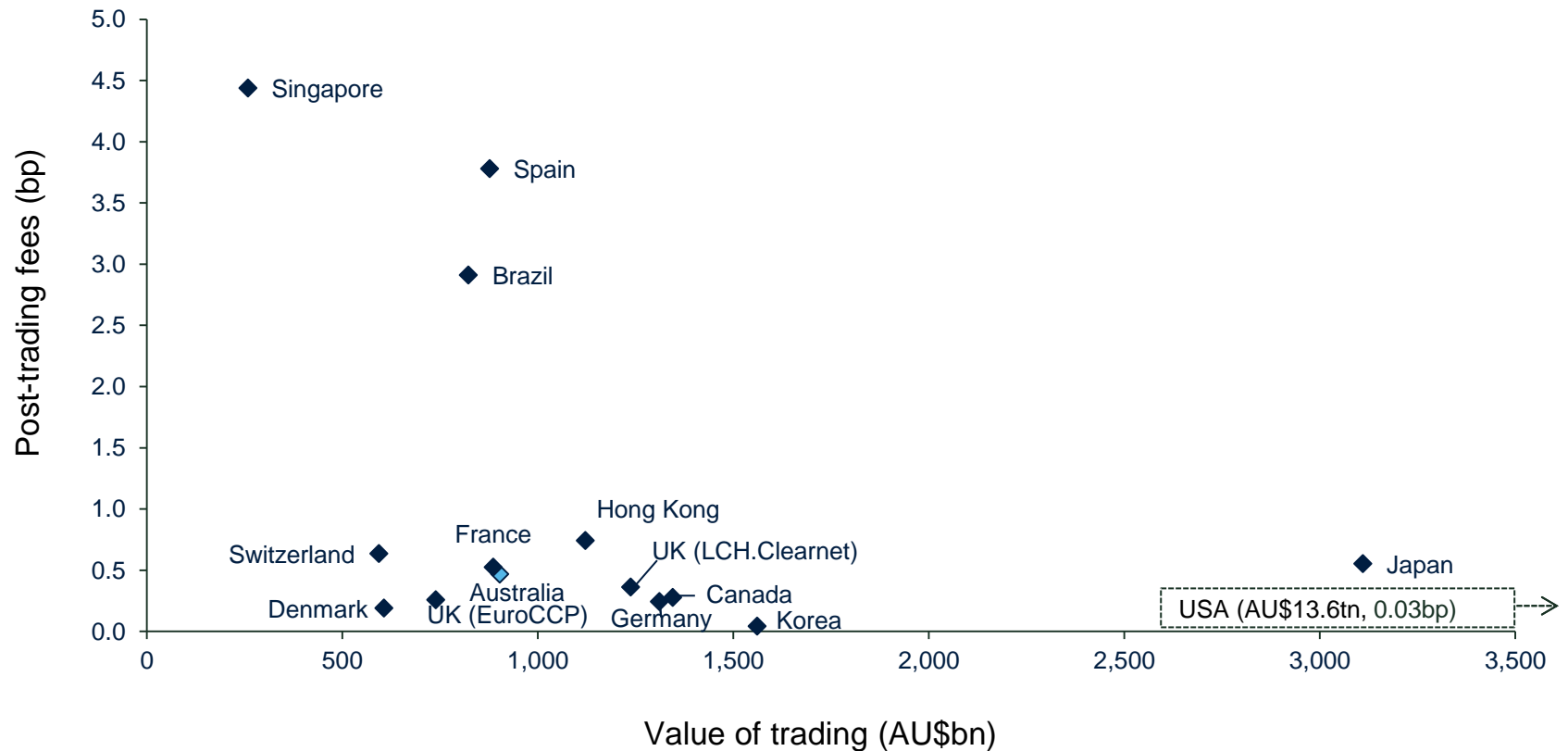
Typical costs

Total trading and post-trading fees and the relationship to size of the market (value of trades)



Typical costs

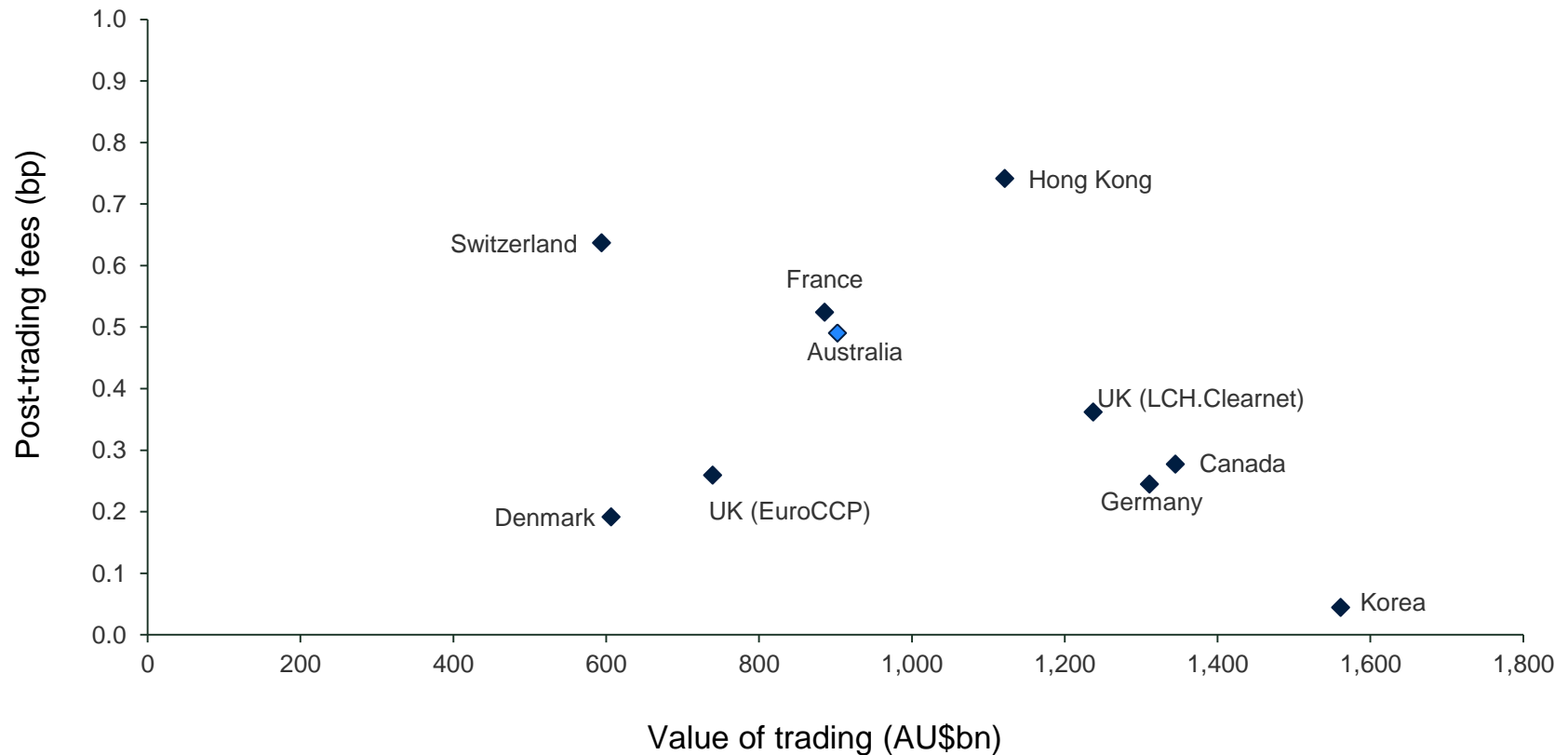
Post-trading fees and the relationship to size of the market (value of trades)



Note: Costs in basis points (bp).

Typical costs—enlarged

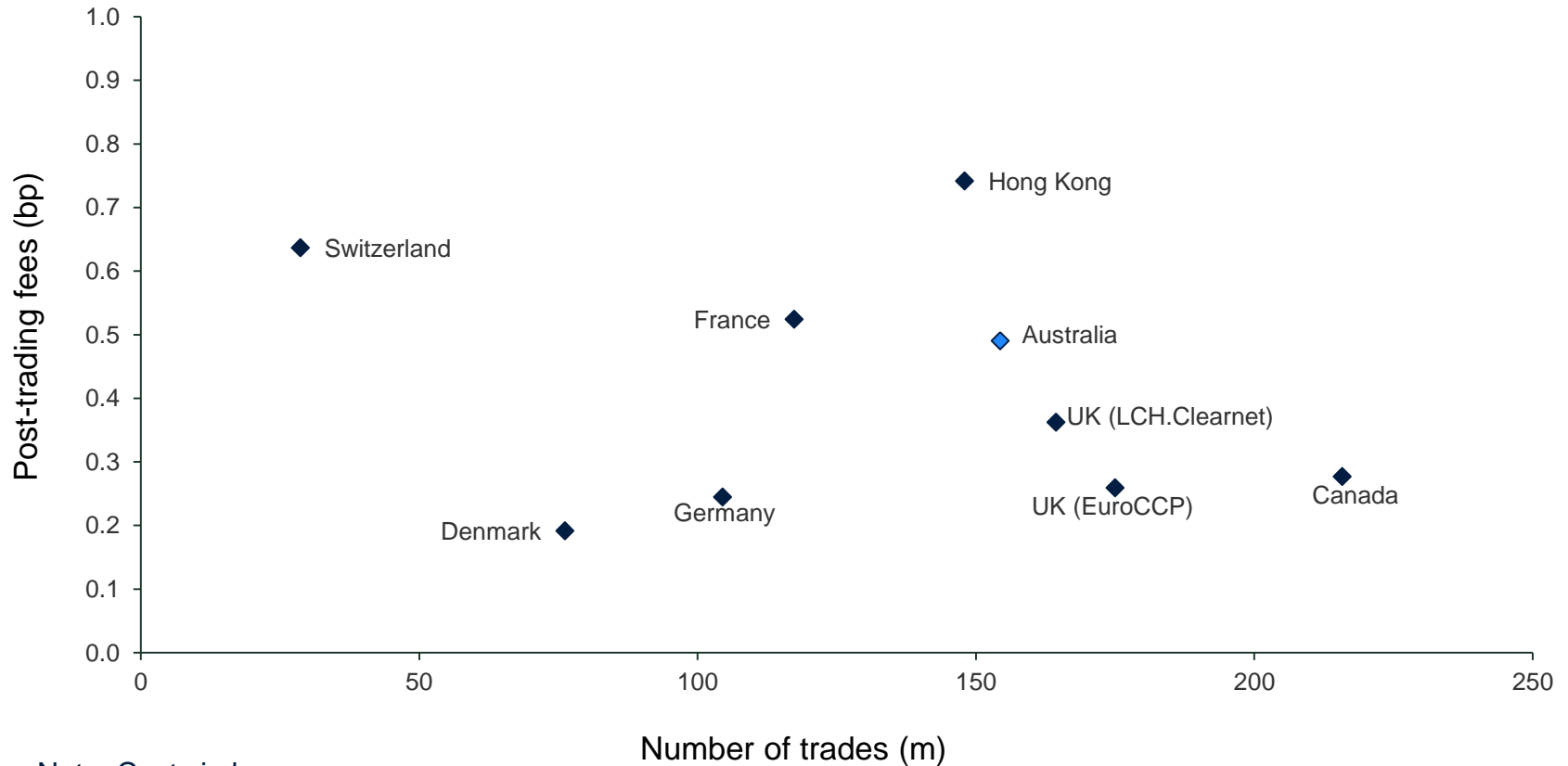
Post-trading services and the relationship to size of the market
(value of trades)



Note: Costs in bp.

Typical costs—enlarged

Post-trading services and the relationship to size of the market (number of trades)



Note: Costs in bp.

Methodology

- comparison of the costs of post-trading services provided by FMIs in 14 different-sized financial centres
- ‘user-profile’ approach
 - seven user profiles: 4 institutional and 3 retail
 - represent a diverse range of investors and intermediaries active in the Australian cash equity market
 - objective is comparisons between FMIs, not between user profiles
 - informed by ASX aggregate and participant-level data and discussions with local brokers
 - reviewed by Business Committee
- cross-checks
 - sensitivity analysis and ‘local’ user profiles applied where relevant
 - service comparison
 - financial metrics

Investor and intermediary profiles (I)

Investors	Small hedge fund manager	Large hedge fund manager	Small long-only fund manager	Large long-only fund manager	Frequent retail investor	Infrequent retail investor
Value of equities under management (AU\$m)	30	300	200	10,000	0.10	0.25
Total value traded per year (AU\$m)	60	600	350	6,000	0.5	0.045
Average order size (AU\$m)	0.06	0.40	0.07	0.40	0.005	0.015
Average number of stock traded per year	1,000	1,500	5,000	15,000	100	3

Intermediaries	Institutional: small	Institutional: mid	Institutional: large	Retail: online	Retail: advice
Average number of transactions per day	12,000	59,000	126,000	20,000	4,000
Average trade size (AU\$)	5,000	5,000	5,000	5,000	7,000
Average value of custodian account (CSD level—total) (AU\$m)	1,000	12,000	52,000	20,000	15,000
Average number of settlement instructions per day	1,000	1,000	1,000	1,000	500

Investor and intermediary profiles (II)

Profiles	Profile 1	Profile 2	Profile 3	Profile 4	Profile 5	Profile 6	Profile 7
Investor type	Small hedge fund manager	Large hedge fund manager	Small long-only fund manager	Large long-only fund manager	Frequent retail	Infrequent retail	Infrequent retail
Intermediary type	Institutional: small	Institutional: mid	Institutional: mid	Institutional: large	Retail: online	Retail: advice	Retail: online
Estimated annual post-trading cost at ASX (A\$)	3,300	17,200	16,400	168,400	100	4	4

Revenues from ASX's clearing and settlement services in the cash equity market totalled A\$42m and A\$40m in FY2013

Detailed results (I)

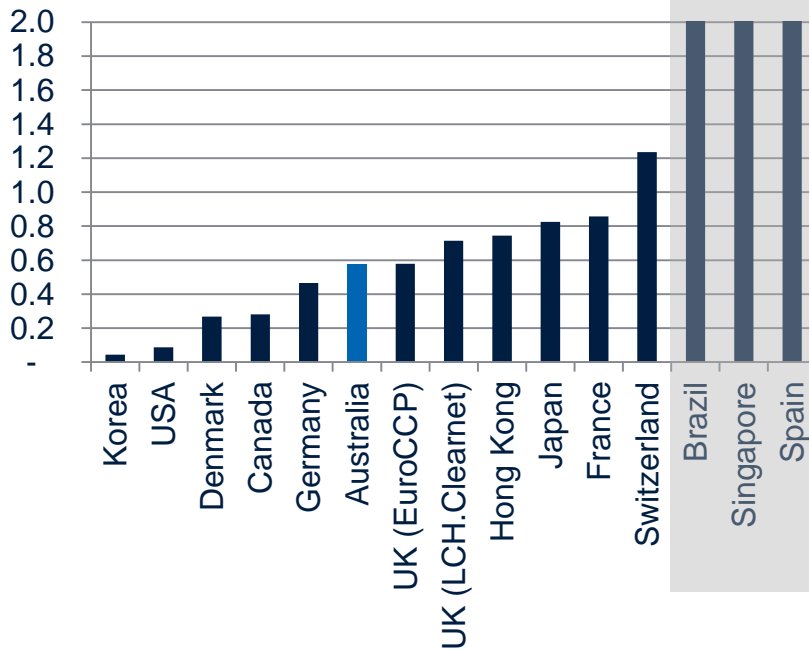
Overview

- in most financial centres, retail investors pay more (in bp) for their post-trading services (and trading services) than institutional investors
- there are some differences in the relative position of ASX across the user profiles:
 - for institutional investors, ASX is clustered around the midpoint
 - for frequent retail investors, ASX is towards the higher end
 - for infrequent retail investors, ASX is towards the lower end

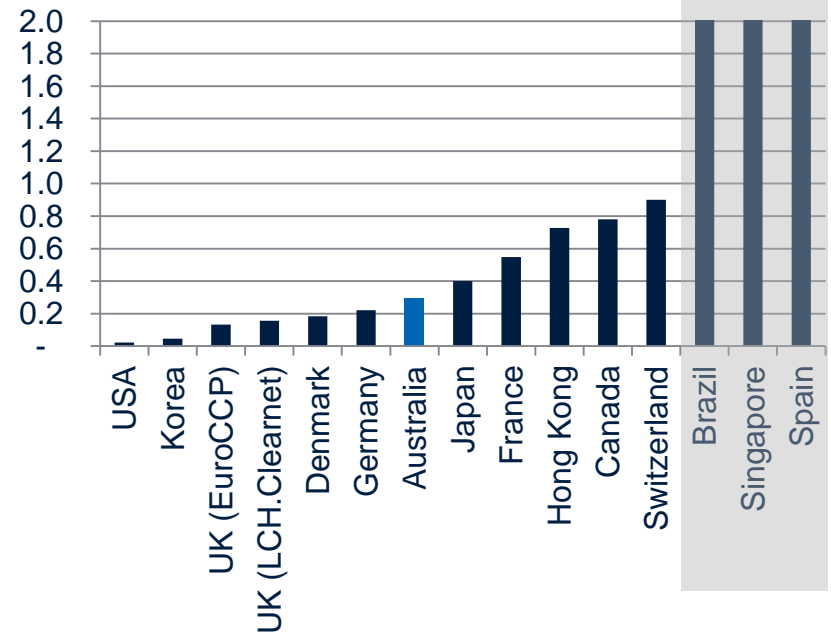
Profile analysis: post-trading fees

Institutional investors (chart truncated at 2bp)

Small hedge fund: small intermediaries



Large long-only fund manager: large intermediaries

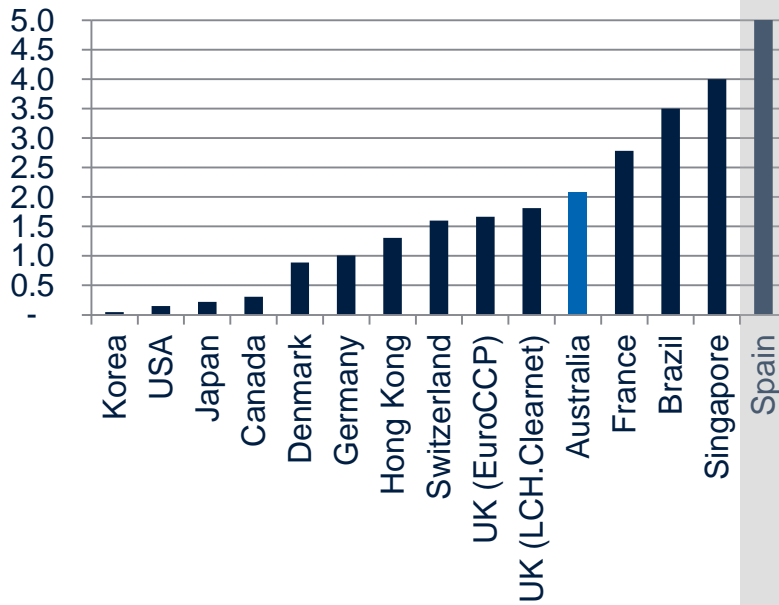


Note: Fees in bp.

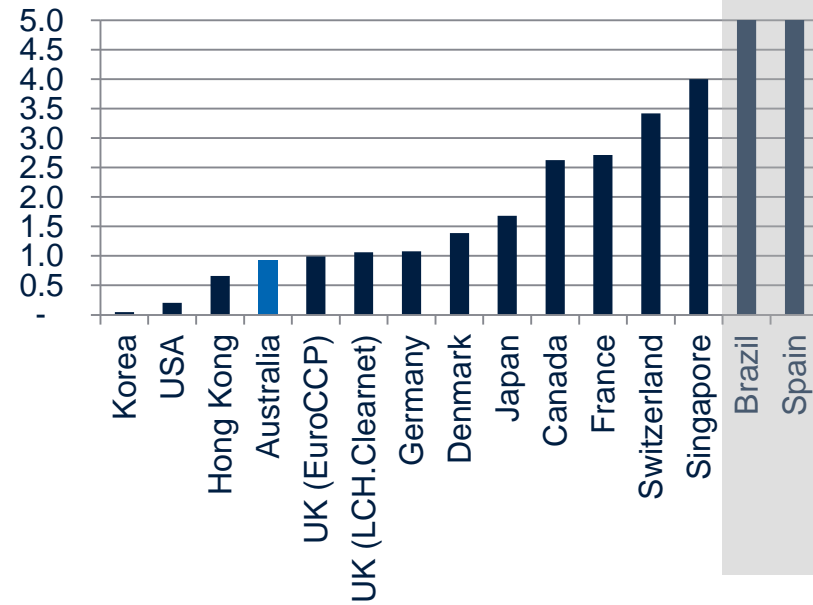
Profile analysis: post-trading fees

Retail investors (chart truncated at 5bp)

Frequent retail investor: retail online broker



Infrequent retail investor: retail advice broker



Note: Fees in bp.

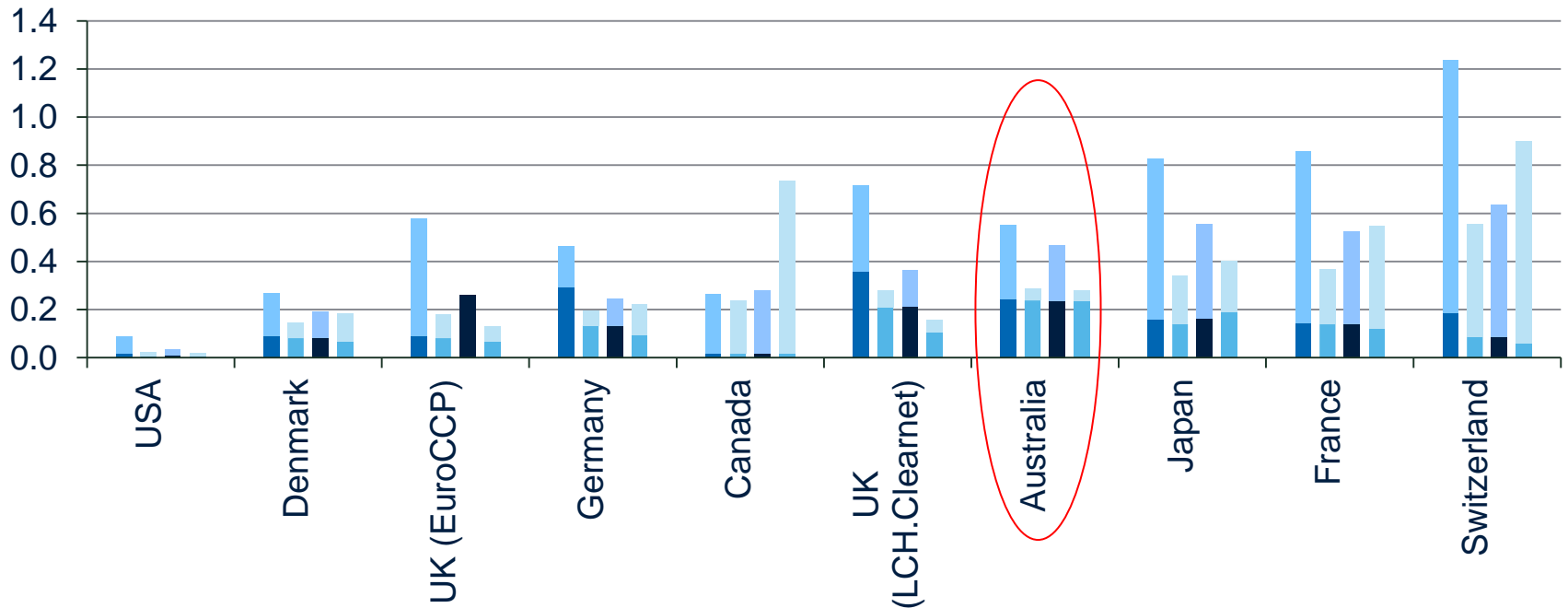
Detailed results (II)

CCP and CSD fees disaggregated

- where comparisons can be made separately for clearing and settlement services, *clearing* fees in Australia are at the high end of its peer group
 - owing to bundling, disaggregated analysis is possible for CCPs and CSDs in 9 financial centres only
 - the cost of using ASX's post-trading services is lower than in 4 of the 5 excluded financial centres (Hong Kong, Singapore, Brazil and Spain)
- taking into account the differences in the default waterfalls moves ASX nearer to the middle of the peer group

Profile analysis: CCP-CSD costs

Institutional investors

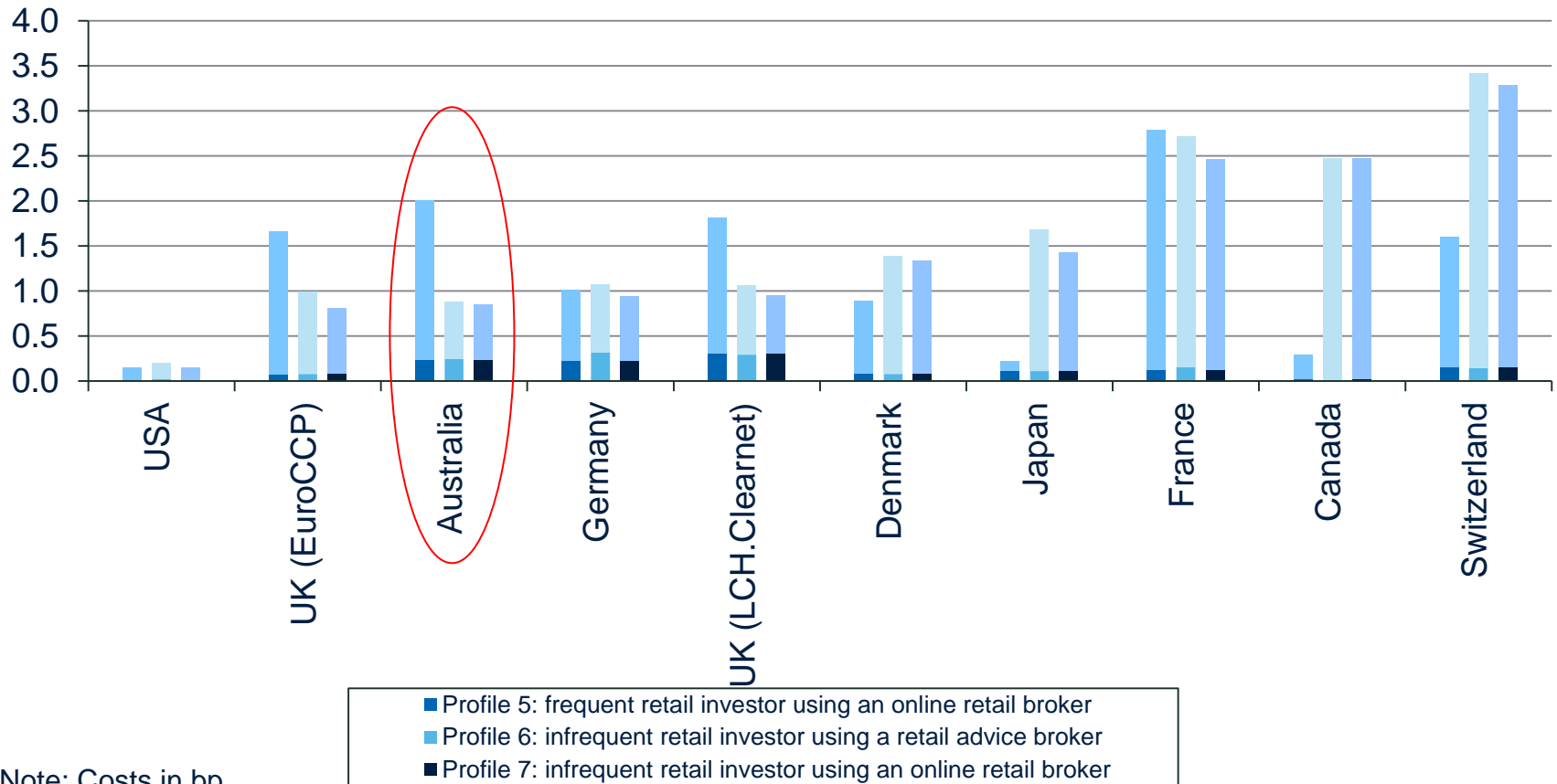


- Profile 4: large long-only fund manager using large intermediaries
- Profile 3: small long-only fund manager using medium-sized intermediaries
- Profile 2: large hedge fund using medium-sized intermediaries
- Profile 1: small hedge fund using small intermediaries

Note: Costs in bp.

Profile analysis: CCP-CSD costs

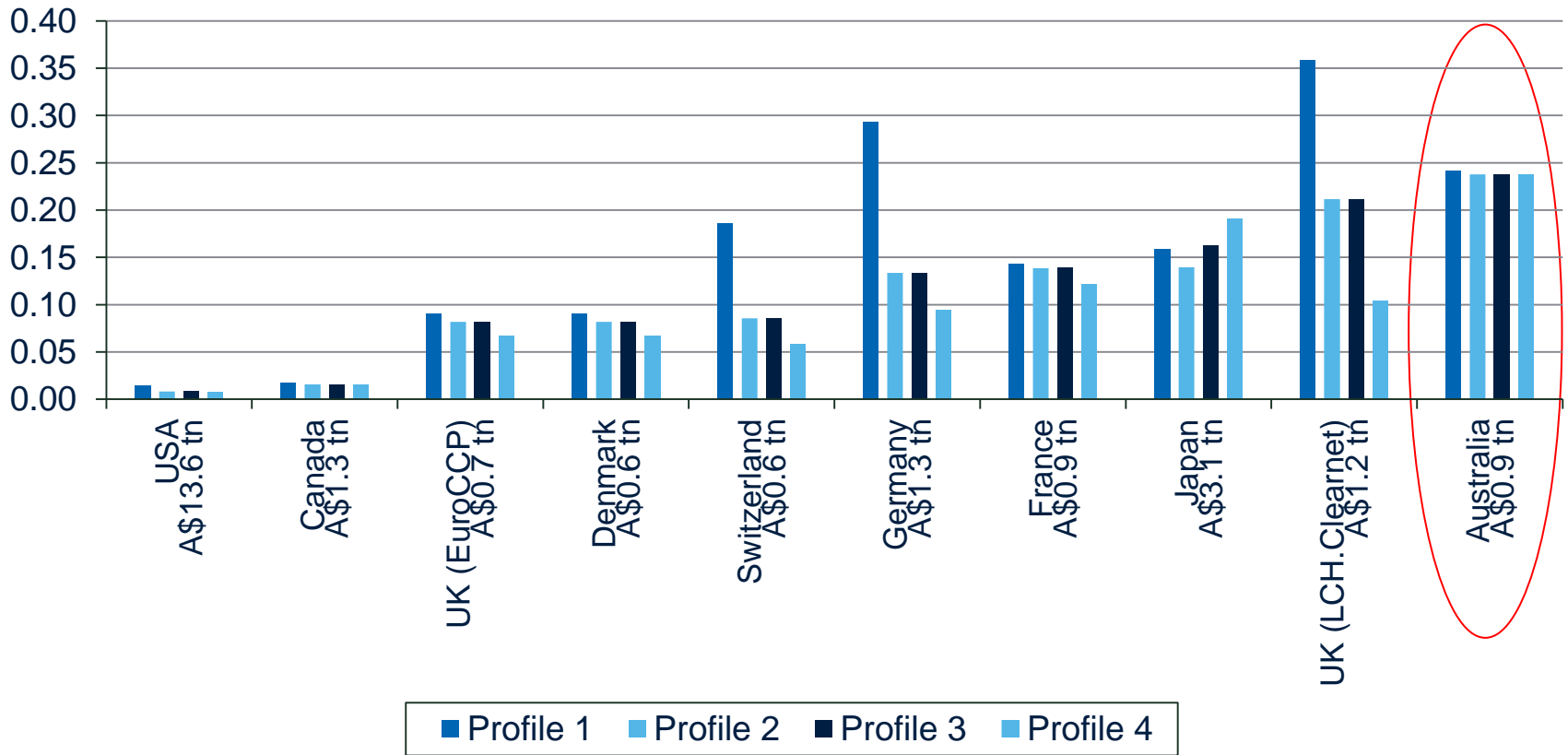
Retail investors



Note: Costs in bp.

Profile analysis: CCP fees

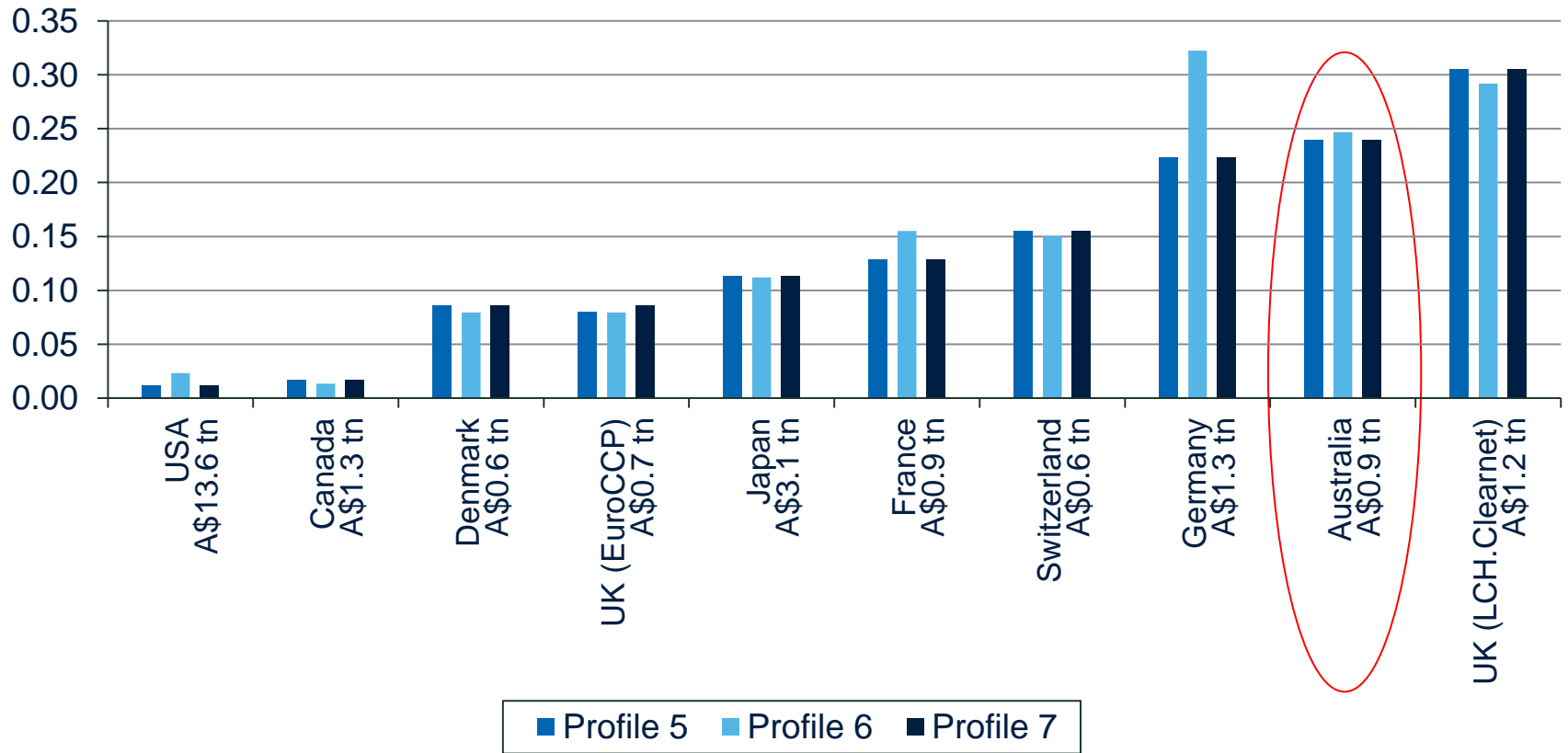
Institutional profiles



Note: Fees in bp.

Profile analysis: CCP fees

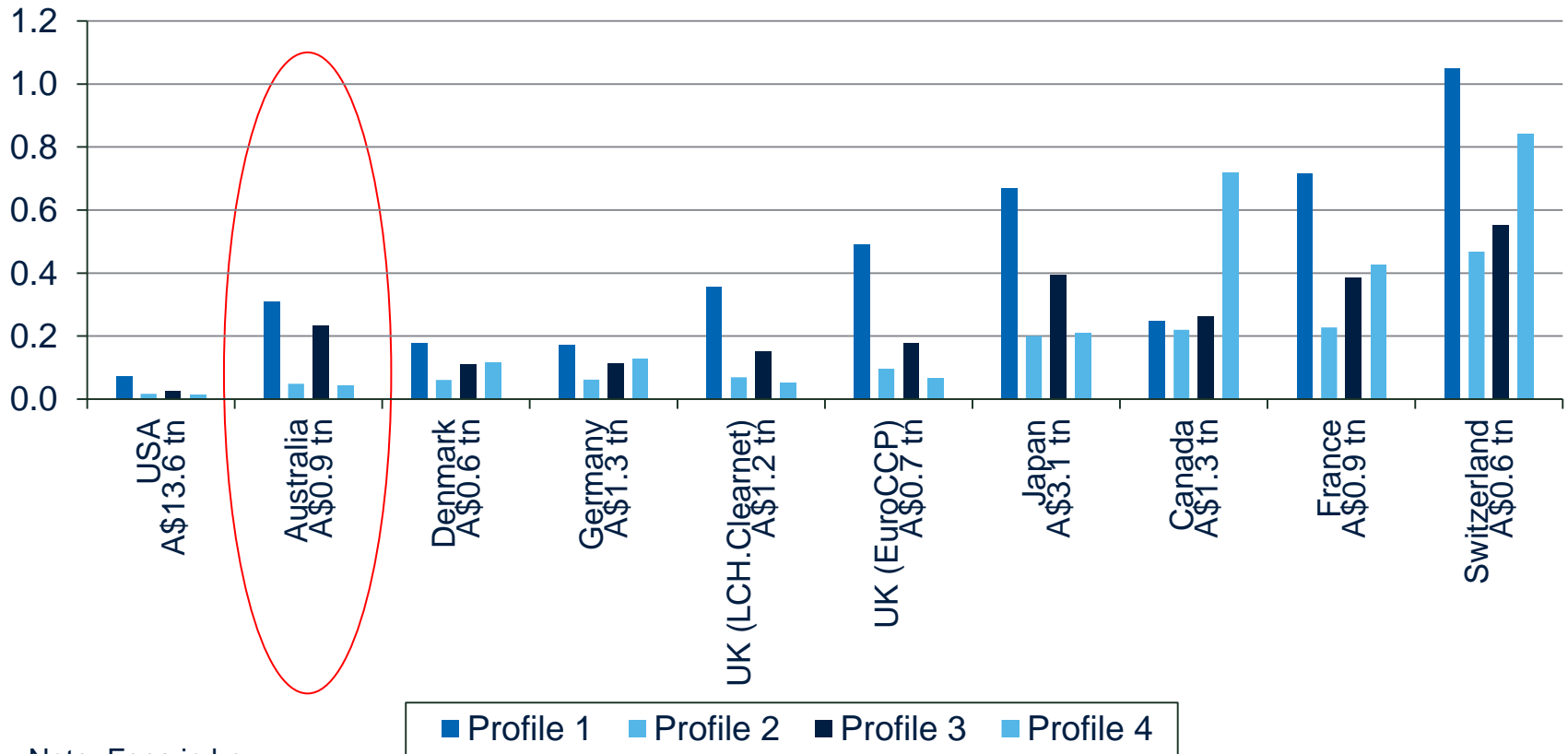
Retail profiles



Note: Fees in bp.

Profile analysis: CSD fees

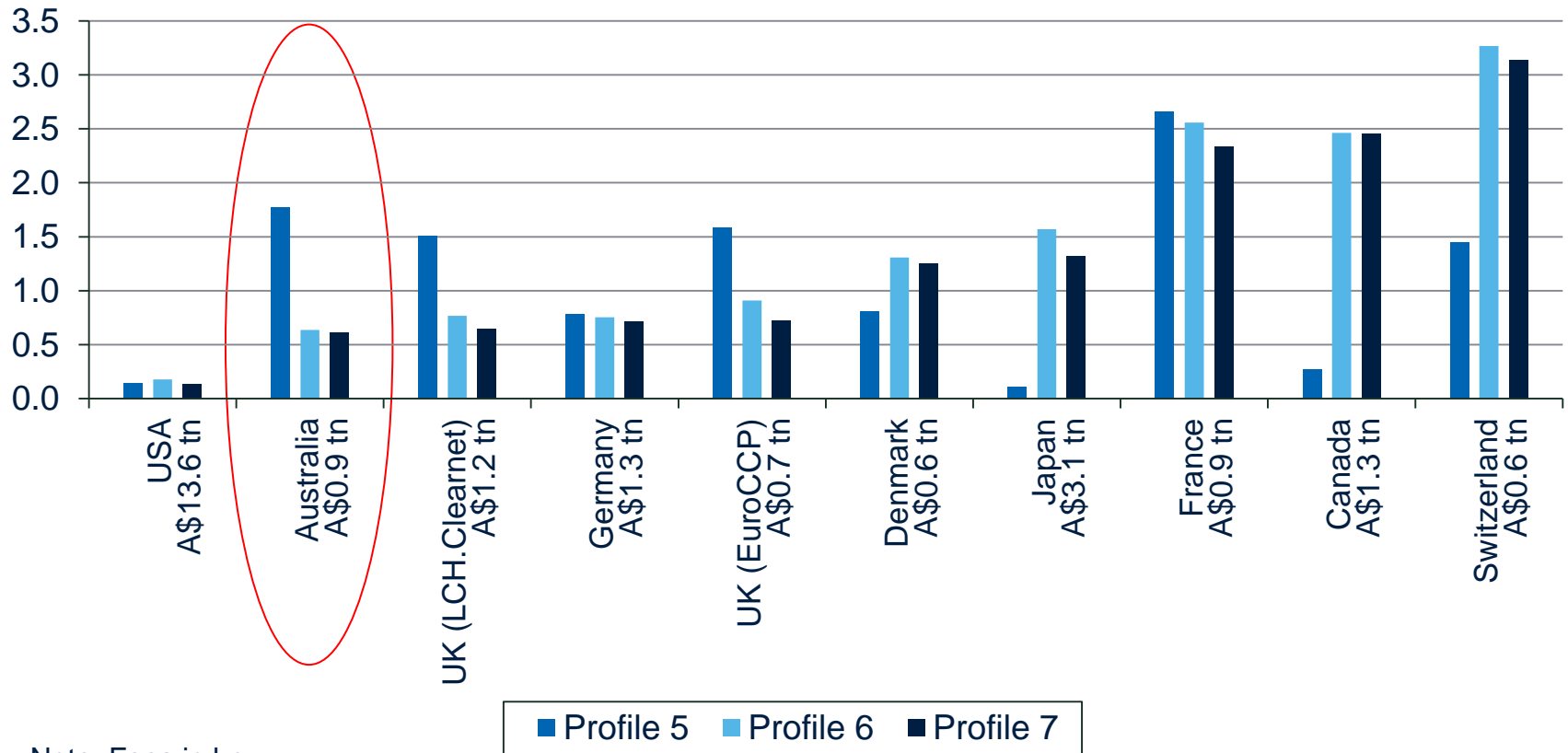
Institutional profiles



Note: Fees in bp.

Profile analysis: CSD fees

Retail profiles



Note: Fees in bp.

Service comparison (I)

- identified a number of potential differences, not all have a material impact on users' costs:
 - existence of CCP
 - none in Spain
 - timing of novation
 - Canada novates late on, so less risk protection
 - margining and treatment of client collateral
 - international standards for margining suggest similar requirements across CCPs
 - *differences* in interest payments likely to be small

Service comparison (II)

- netting efficiency
 - netting efficiency at the market level is driven predominately by *customer* characteristics
- type of accounts at the CSD
 - direct settlement to end-investor can increase costs at the CSD relative to omnibus CSDs, if the omnibus CSD nets institutional transactions
- funding of default waterfall

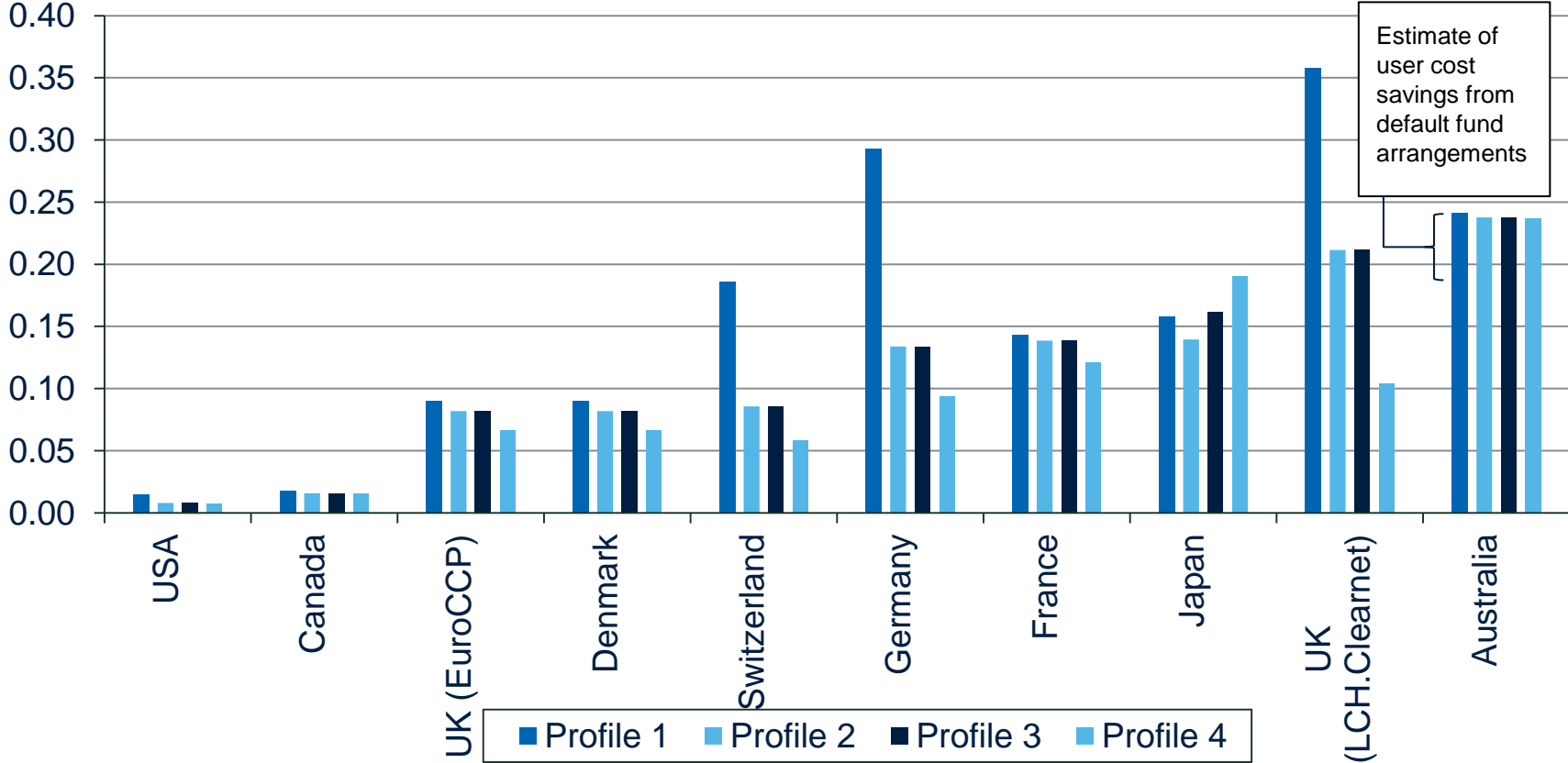
Service comparison (III)

Funding the default waterfall

- ASX takes on the risk of funding the default fund
 - in other CCPs this typically is funded directly by clients, who then take on this risk
- represents a shift of costs from clients to ASX: what is the value to clients of this change?
 - reflecting the risk of contributions made to the default fund, the cost is estimated as the average cost of debt for Australian clearing participants
 - proxied by the cost of A-rated commercial paper
 - results in approximately 0.04–0.07bp of ‘savings’ to clients
- a conservative estimate

Profile analysis: CCP fees with default fund adjustment

Institutional profiles

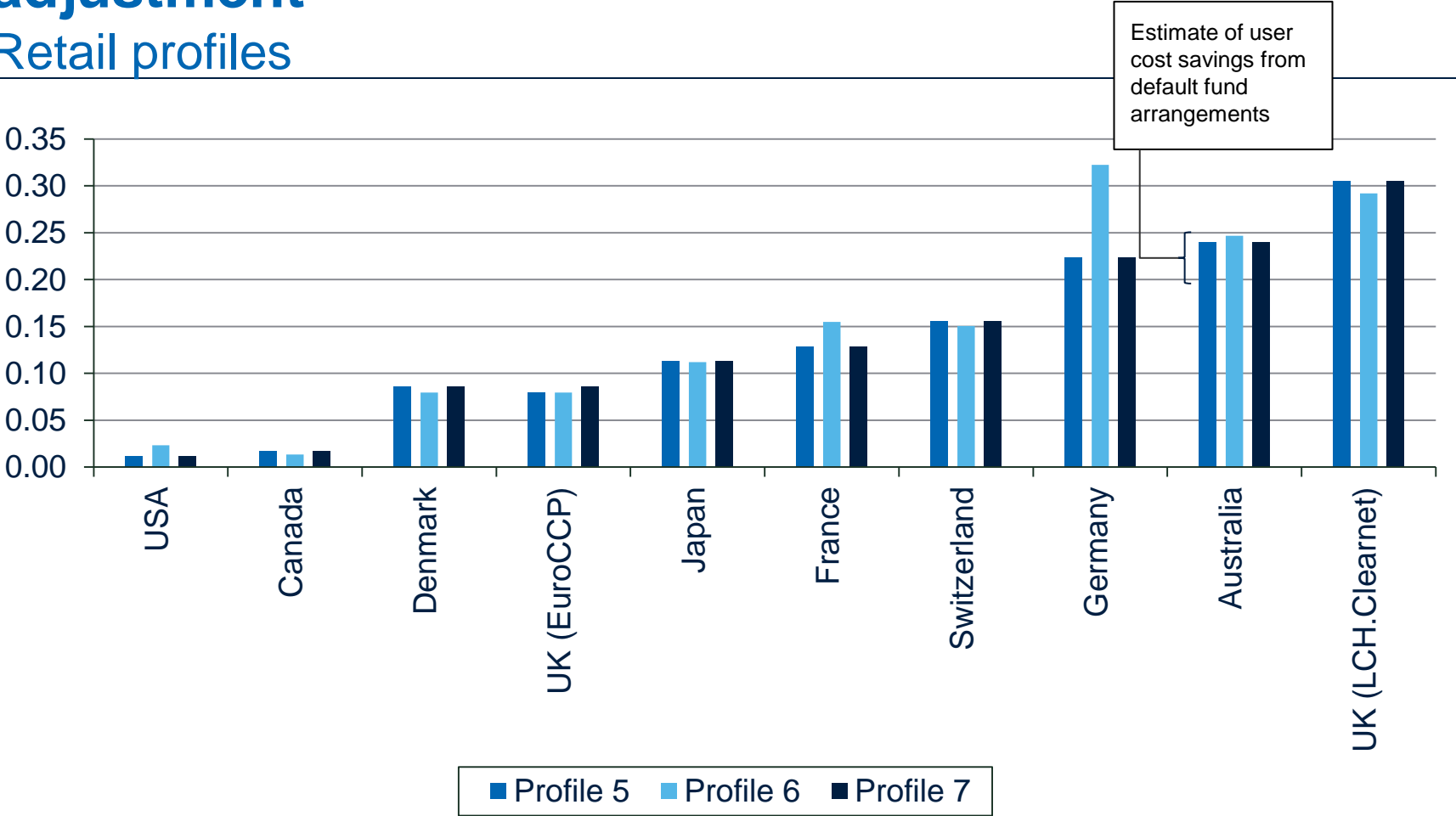


Note: Fees in bp.

Profile analysis: CCP fees with default fund adjustment

adjustment

Retail profiles



Note: Fees in bp.

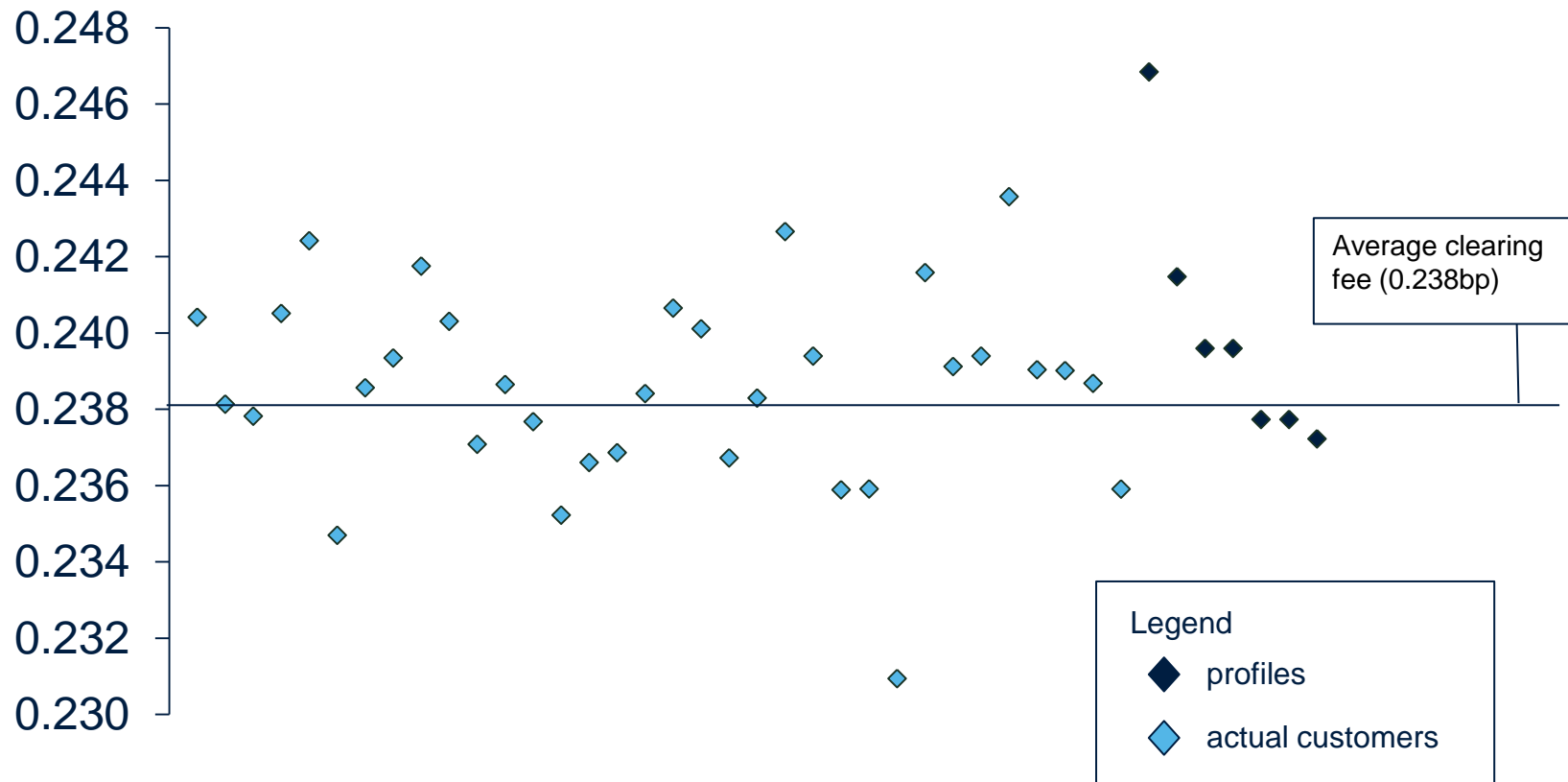
User profiles and customers' actual experience

Summary

- the cost estimates for ASX are consistent with fees paid by ASX's actual customers

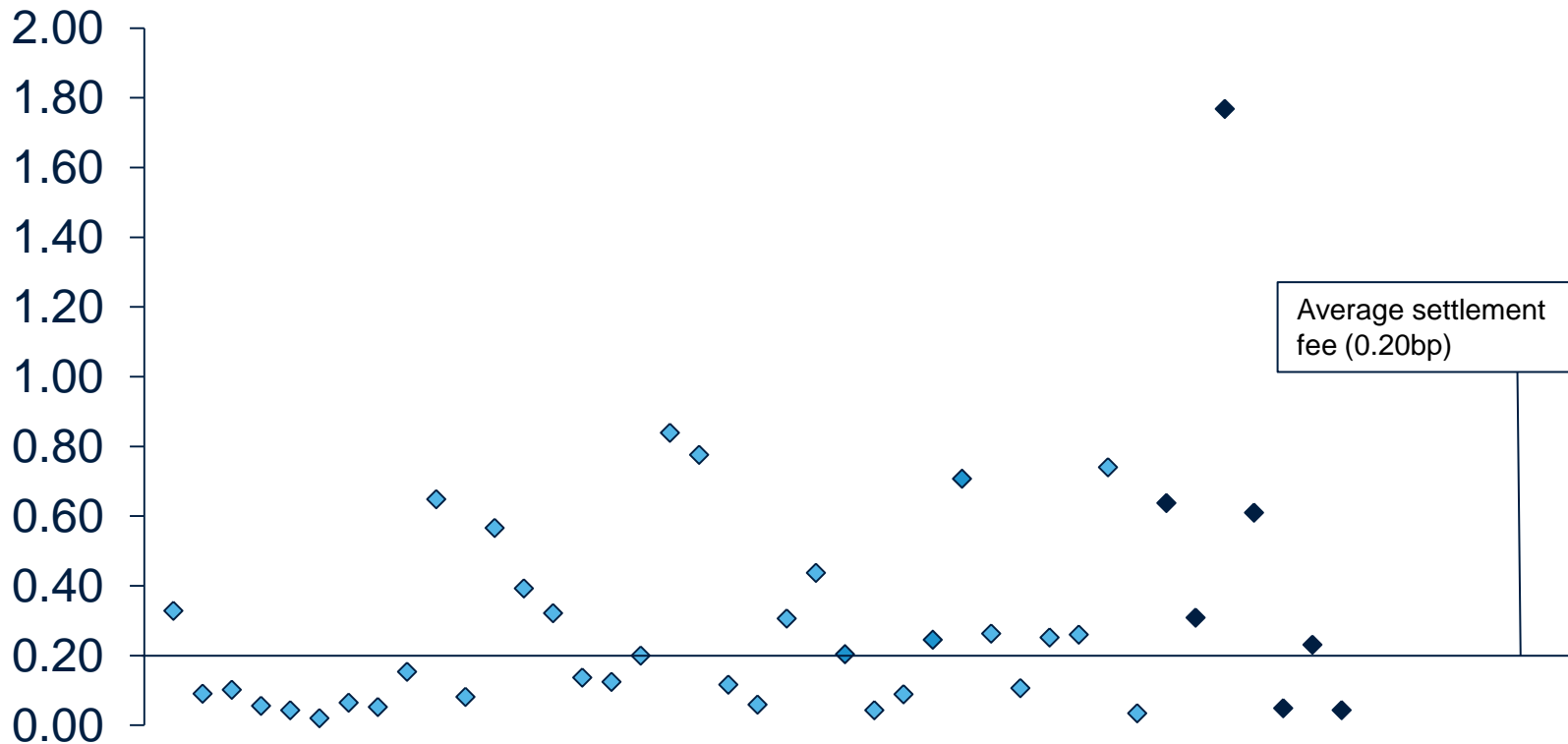
User profiles and customers' actual experience

Clearing fees



User profiles and customers' actual experience

Settlement fees



Conclusions

- given the size of the market, ASX's prices are in line with its peer group
 - at the post-trading level and at the combined trading and post-trading level
- tariff structure differences cause differing results for different user profiles
 - ASX is generally close to/within its peer group
- disaggregation by service produces more variation
 - CCP services—at the higher end of the group; CSD services—at the lower end of the group
- service comparison suggests the contribution to the default waterfall by ASX Clear provides more risk protection than other CCPs
 - results in a cost saving of ~0.04–0.07bp to clients, and would move ASX closer to the middle of the peer group

Contact: Helen Ralston
Tel: +44 (0) 207 776 6623
email: helen.ralston@oxera.com

www.oxera.com
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