



MINUTES OF THE BUSINESS COMMITTEE  
MONDAY, 9 DECEMBER 2013  
ASX LIMITED  
LEVEL 1, 20 BRIDGE STREET SYDNEY

**1. Introduction and overview of meeting agenda**

- a. Oral report by the Chair of the Business Committee on the key issues discussed at the 2 October 2013 Forum meeting
- b. Correspondence from the Chairman of the Boards of ASX Clear and ASX Settlement to Forum Members

**2. Management accounts for cash market clearing and settlement**

**3. Outcomes from the Forum meeting**

- a. International cost benchmarking – scope and methodology
- b. ISO 20022 Standard Messaging
- c. Consideration of a T+2 settlement cycle & batch cut-off

**4. Policy update and Financial Stability Standards**

- a. Feedback on the segregation and settlement finality consultation process and next steps
- b. Policy update on the minimum core capital requirements

**5. Administration**

- a. Minutes from the 16 August 2013 meeting
- b. Next meeting

## ATTENDEES

MEMBERS		
Company	Name	Job Title
ASX	Mr Peter Hiom	Business Committee Chair Deputy CEO, ASX
ABN AMRO Clearing	Mr Barry Parker	Managing Director
APX	Mr David Lawrence	Chief Operating Officer & Company Secretary
Bank of America Merrill Lynch	Mr Anatoly Kirievsky	Vice President Compliance
BBY Ltd	Mr Arun Mahraj	Chief Executive Officer
BNP Paribas	Mr Mark Wootton	Head of Local Custody
Chi-X Australia	Mr Jason Keady	Director Markets and Operations
Commonwealth Bank of Australia	Mr Sheridan Thompson	Executive Manager, Strategic Development, Commonwealth Securities Limited
Deutsche Bank AG	Mr Russel Deal	Chief Operating Officer
Goldman Sachs	Mr Greg Hanlon	Chief Operating Officer
J.P. Morgan	Mr Samuel Mann (attendance by dial-in)	Business Manager, Australia Equities
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Morgan Stanley	Mr Craig McGuire	Head of Operations
NSX	Mr Emlyn Scott	Chief Executive Officer
Patersons Securities	Mr Sam Budiselik (attendance by dial-in)	Chief Operating Officer
UBS	Mr Conor Foley	Chief Operating Officer

ASX Management	
Name	Job Title
Ms Amanda Harkness	Group General Counsel & Company Secretary
Mr Ramy Aziz	Chief Financial Officer
Mr Tim Hogben	Group Executive, Operations
Mr Alan Bardwell	Chief Risk Officer
Ms Danielle Henderson	General Manager, Clearing Services
Mr Andrew White	General Manager, Settlement Services
Ms Diane Lewis	Senior Manager, Regulatory and Public Policy
Mr Rodd Kingham	Senior Manager, Clearing Services

## APOLOGIES

MEMBERS		
Company	Name	Job Title
RBS Morgans	Mr Peter Chisolm	Chief Operating Officer
Bell Potter Securities	Mr Dean Surkitt	Managing Director Retail
Citi	Mr Nick Pelham	Business Manager – Markets



The meeting commenced at 3.00pm.

## **AGENDA ITEM 1: INTRODUCTION AND OVERVIEW OF MEETING AGENDA**

The Chair thanked Committee members for attending the additional meeting this year. The Chair noted that the additional meeting provided an opportunity for the Committee to be updated on the first Forum meeting and to provide input to the request for proposal (RFP) that will be shortly issued on for the international cost benchmarking.

### **a. Oral report by the Chair of the Business Committee on the key issues discussed at the 2 October 2013 Forum meeting**

The Chair provided Committee members with an overview of the Forum meeting noting that it was well attended and that there was a good discussion on the management accounts, the operational performance of cash market clearing and settlement services and the international cost benchmarking to be commissioned in 2014.

The Chair also informed Committee members that the forward work program was discussed and received broad support from Forum members. It was noted that an update on the key streams of work in the forward work program will be provided under agenda item 3.

### **b. Correspondence from the Chairman of the Boards of ASX Clear and ASX Settlement to Forum Members**

The Committee noted the correspondence from the Chairman of the Boards of ASX Clear and ASX Settlement (the Boards) to Forum members dated 13 November, which was included in the meeting papers. The Chair briefly commented on the commitment by the Boards to support the three streams of work prioritised by the Forum – the international cost benchmarking, consideration of a T+2 settlement cycle and the cut-off time for batch settlement, and the development of ISO 20022 standard messaging.

## **AGENDA ITEM 2: MANAGEMENT ACCOUNTS FOR CASH MARKET CLEARING AND SETTLEMENT**

The Chair introduced ASX's CFO to speak to a presentation on the management accounts for cash market clearing and settlement and the cost allocation and transfer pricing policy, which were included in the meeting papers. It was noted that it was the same presentation that had been given at the Forum meeting

The meeting was informed that this was the first time that ASX has prepared these management accounts and that it is the first time that ASX has allocated costs and capital at this level. The meeting was also informed that the management accounts would be prepared annually and published at the same time as ASX reports its full-year results. ASX's CFO noted that the accounts and the cost allocation and transfer pricing policy had been reviewed and approved by the Boards, and subject to external audit.

ASX's CFO took Committee members through the presentation on the management accounts, specifically noting that:

- the structure of the clearing house is quite unique with ASX contributing all the default capital compared to clearing houses in other markets, such as those in Europe where participants provide a significant proportion of the default capital;
- the staff costs for the provision of these services are consistent with the staff costs for ASX Group, that is, staff costs represent approximately 50% of overall costs;



- the EBITDA margin for the provision of these services is consistent with that of the ASX Group. The return on equity for the provision of cash market settlement services is a little higher than that for cash market clearing on the basis of the Delivery Versus Payment (DVP) settlement model and that ASX Settlement is not required to hold default capital (a large proportion of the capital held by ASX Settlement is held to mitigate operational and business risk);
- the statements have been prepared on a going forward basis and, as such, there is no interest expense recorded in relation to the debt facility that ASX recently replaced with equity capital following the capital raising undertaken in July; and
- stress testing exposures over the last ten years confirmed that the amount of capital held by ASX Clear and ASX Settlement in respect of the cash market was appropriate.

A Committee member queried whether the money that was transferred to ASX Clear Pty Limited when the National Guarantee Fund (NGF) was split was included in the clearing risk capital allocated to cash market clearing. ASX's CFO noted that while the money that was transferred is included in the allocated capital, the corresponding liability was also transferred to ASX Clear Pty Limited. ASX's CFO explained that if there was a default event and the capital was depleted, ASX has an obligation to replenish that capital.

### **AGENDA ITEM 3: OUTCOMES FROM THE FORUM MEETING**

#### **a. International cost benchmarking – scope and methodology**

A timeline for commissioning analysis and publishing a report on the international cost benchmarking in June 2014 was tabled at the meeting. The Chair informed the meeting that the Forum had requested that the international cost benchmarking be accelerated, and noted that while the timeframe for undertaking this type of analysis is challenging, ASX is committed to delivering the report by the June 2014 Forum meeting.

ASX's General Manager for Clearing Services spoke to the agenda paper, noting that:

- ASX has approached and had preliminary discussions with three consultants regarding the RFP. It was noted that ASX has sought guidance from the consultants in relation to the scope and methodology of the analysis, for example, which jurisdictions should be included in the analysis, the appropriate number of user profiles to be incorporated to provide meaningful results across different types of investors and trading styles (likely to be between 10 and 15), how to take account of different service offerings in different markets and whether there is benefit in undertaking the analysis from both a bottom-up and top-down perspective;
- there are a number of complexities in undertaking this analysis, in particular, in relation to taking into account the different market structures and capital structures across different markets and, subsequently, disaggregating the costs of clearing and settlement services. In this context, it is likely that the report would be a 100-plus page report. It was noted that ASX was committed to delivering a report that presents an objective and transparent analysis, with the assumptions made and the rationale for those assumptions clearly set out. It was further noted that, to the extent possible and subject to pricing data being available, the analysis would cover unbundled clearing and settlement service costs;
- the benefit of restricting the analysis to between 10 to 15 countries was that it allowed for greater depth of analysis and a more robust service and cost comparison;
- the final RFP will be sent out to the three consultants later in the week after taking into account any feedback received in this meeting; and
- ASX will invite Committee members to provide input on the user profiles at the next meeting **[Agreed Action 1]**.



A Committee member queried the scope of the analysis and whether the connectivity costs associated with providing clearing and settlement arrangements to other market operators could be included in the benchmarking. The Chair agreed in-principle that these costs should be included in the report. The Chair also noted that ASX would include this in the final RFP and discuss it with the successful consultant [**Agreed Action 2**].

The Chair invited comments on the proposed scope and methodology for the analysis, including in relation to the jurisdictions identified, the number of user profiles and the proposed approach to the analysis. The Committee agreed to the jurisdictions identified and no objections were raised in relation to the proposed methodology for the analysis.

A Committee member commented on the structure and length of the invoices their organisation receives from ASX for clearing and settlement services. He queried whether there may be scope for ASX to examine the fee schedule and invoicing to simplify the statements in relation to fees paid by participants.

The Chair responded that ASX will prepare a report for individual participants which would provide for greater transparency in relation to fees and what was driving any changes in amounts paid. The Chair advised the Committee that ASX would prepare a sample report for consideration at the next meeting [**Agreed Action 3**].

Given the timeframe for undertaking the international benchmarking and finalising a report, the Chair noted that the report would not be completed in time at its May 2014 meeting. However, the Chair offered to brief the Committee on the report shortly before the Forum meeting on 23 June 2014.

## **RECOMMENDATIONS TO THE FORUM**

- There were no recommendations to be provided to the Forum on this item.

### **b. ISO 20022 standard messaging**

The Chair introduced ASX's Group Executive for Operations, in his capacity as the Chair of the recently established Technical Committee on CHESSE messaging and ISO 20022, to update the Committee on the first meeting of the Technical Committee.

The Chair of the Technical committee informed the meeting of the key points discussed at the 25 November 2014 Technical Committee meeting, noting that:

- the Technical Committee was of the view that moving to a global standard would be expected to deliver significant cost savings to global participants as it would allow them to operate standardised technical infrastructure, with centralised support;
- a number of Technical Committee members were also of the view that participants operating only in the Australian market would benefit from the adoption of ISO 20022 standard messaging by reducing the barriers to entry of further technology providers and by assisting in managing technology infrastructure overheads and on-going costs;
- there was general agreement that the current CHESSE messaging protocol was 'not broken', and that CHESSE messages were effective and contained rich data content. It was also noted that the bespoke nature and complexity of CHESSE messages partly explained the additional costs in the Australian market;
- the Technical Committee agreed that the full suite, rather than a sub-set, of CHESSE messages needed to be ISO 20022 compliant to provide real benefits and cost savings to participants;
- Technical Committee members were broadly of the view that the introduction and provision of "ISO 20022-like" messages (messages that are not fully ISO 20022 compliant as the unique



CHES business processes and message models do not fully align with ISO 20022) would not provide sufficient cost savings and benefits to participants to warrant proceeding with the initiative;

- there was agreement that ISO 20022 standard messaging should be mandated rather than be provided as an alternative to CHES proprietary messaging to assist in building the business case for such a significant change. This was subject to the industry being provided sufficient timing for implementation;
- there was also broad agreement on the importance of aligning this initiative with any plans to refresh or replace CHES. The Technical Committee saw the move to implement ISO 20022 standard messaging as a medium term initiative and that it would be better to take the opportunity to examine the current message content and what may be needed in the future before introducing ISO 20022 standard messages. This timeframe would also accommodate the need to obtain approval for any new messages not currently defined under ISO 20022, which would likely take up to 18 months; and
- the Technical Committee agreed that there was merit in the implementation of the standard being aligned, where possible, with its implementation in other major markets, in particular the markets in Asia Pacific, such as Japan, China and Korea.

A Business Committee member acknowledged that in the last meeting he had indicated that it was important for ISO 20022 to be introduced on the basis that his organisation could continue to use CHES proprietary messaging as they did not have international operations. The Business Committee member noted that following further internal discussions his organisation was now open to the introduction of ISO 20022 standard messaging as a replacement to CHES proprietary messaging, and he confirmed that mandating its adoption would assist with the business case.

There was some discussion of the benefits of linking the introduction of ISO 20022 standard messaging with the refresh or replacement of CHES, with a member commenting that there would be merit in understanding the roadmap for CHES prior to progressing to a detailed solution for the introduction of ISO 20022 standard messaging.

A timeline for the consideration of the introduction of ISO 20022 standard messaging was tabled at the meeting. The meeting noted that the Technical Committee will continue to meet to consider the scope of coverage of the initiative, and to examine the current message content and what may be needed in the future.

## **RECOMMENDATIONS TO THE FORUM**

- There were no recommendations to be provided to the Forum on this item.

### **c. Consideration of a T+2 settlement cycle and batch cut-off**

A timeline for considering the introduction of a T+2 settlement cycle and the cut-off for batch settlement was tabled at the meeting. The Chair informed the meeting that the Forum had a lengthy discussion on T+2 and had requested that the work be accelerated on the basis that it was expected that it would lead to a reduction in cash market margining.

ASX's General Manager of Settlement Services spoke to the agenda paper, noting that:

- an issue not highlighted in the agenda paper which will be canvassed in the consultation paper relates to the possibility of a shorter settlement cycle leading to a reduction in the financial resources required to be held by ASX Clear to mitigate counterparty risk (noting that this would require regulatory clearance) and, if the regulators allowed a reduction in the pre-paid financial resources, the potential for a reduction in the clearing fee;



- in addition to the expected reduction in cash market margining, a shorter settlement cycle is expected to lead to a reduction in the liquid capital requirements (in so far as they relate to cash equities) for clearing participants;
- the consultation paper will put forward the possibility of pushing back the batch cut-off time as an option for addressing concerns custodians may have in relation to servicing their offshore clients within a shorter settlement cycle; and
- a draft of the consultation paper will be provided to the Committee for consideration at its next meeting.

The Committee agreed that progressing the initiative on T+2 was of a higher priority than the initiative to introduce ISO 20022 standard messaging. Committee members also agreed that consideration should be given to implementing T+2 earlier than the 3 years set out in the agenda paper. A number of Committee members were of the view that an 18 month to 2 year timeline for implementation was appropriate given the potential benefits for the industry.

The Committee agreed that the consultation paper should seek feedback from stakeholders in relation to what is the appropriate transition period.

A Committee member noted that an outcome of a reduced settlement period may be increased delivery fails and that managing that risk and the cost impact to participants needed to be considered as part of the consultation.

A Committee member suggested that it would be helpful if ASX could undertake some analysis and calculate what the expected benefits of a shorter settlement cycle would be for participants in relation to the reduction in cash market margining for inclusion in the consultation paper.

The Chair confirmed that ASX would include this analysis in the consultation paper [**Agreed Action 4**].

## **RECOMMENDATIONS TO THE FORUM**

- The Business Committee recommended that progressing the initiative on the introduction of a T+2 settlement cycle is of a higher priority than the initiative to introduce ISO 20022 standard messaging.

## **AGENDA ITEM 4: POLICY UPDATE AND FINANCIAL STABILITY STANDARDS**

### **a. Feedback on the segregation and settlement finality consultation process and next steps**

The meeting noted and welcomed the outcome of maintaining the existing single house account structure in the cash market from the recent ASX consultation process undertaken on the new Financial Stability Standards in relation to account segregation. A Business Committee member requested that the work undertaken by Brendon Luscombe, ASX General Manager of Clearing Risk Management, to achieve this outcome should be recognised.

ASX noted that proposed amendments to the ASX (Clearing and / or Settlement) Operating Rules to provide enhanced cash market client protection would be in place by April 2014, and that the proposed CHES processing flow for client broker sponsored sales are expected to be implemented in the November 2014 CHES release.

## **RECOMMENDATIONS TO THE FORUM**

- There were no recommendations to be provided to the Forum on this item.

### **b. Policy update on the minimum core capital requirements**

The meeting noted the outcomes from the recent ASX consultation process on the minimum core capital requirements for direct participants and the possible introduction of a tiered minimum core capital requirement for general participants. It was noted that:

- the minimum core capital requirement for direct participants will remain at \$5 million; and
- ASX will progress a proposal to introduce a tiered minimum core capital requirement for general clearing participants.

#### RECOMMENDATIONS TO THE FORUM

- There were no recommendations to be provided to the Forum on this item.

#### AGENDA ITEM 5: ADMINISTRATION

##### a. Minutes from the 16 August 2013 meeting

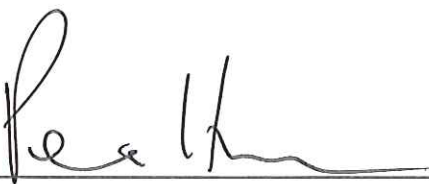
The Chair noted the proposed revision to the minutes from the 16 August 2013 meeting and invited comments on the proposed revision. As there were no comments on the proposed revision, the Chair noted that the minutes were approved.

##### b. Next meeting

The Committee noted that the next meeting will be held on Wednesday, 19 February 2014.

As there was no further business discussed, the meeting closed at 4.40pm.

Signed as a correct record of the meeting.



Chairman

31 / 1 / 2014

Date