



MINUTES OF THE BUSINESS COMMITTEE
FRIDAY, 16 AUGUST 2013
ASX LIMITED
LEVEL 1, 20 BRIDGE STREET SYDNEY

1. Introduction to the Code of Practice

2. Service Performance

- a. Clearing & Settlement service performance report
- b. Trade Acceptance Service report

3. Business Matters

Overview of the themes and initiatives for a forward work program

- a. Participant structures - tiered capital for general participants
- b. Service innovation - messaging standards for CHES
- c. Financial Stability Standards - segregation of house and client accounts

4. Administrative Matters

5. Next Meeting

ATTENDEES

MEMBERS		
Company	Name	Job Title
ASX	Peter Hiom (Chair)	Business Committee Chair
APX	David Lawrence	Chief Operating Officer & Company Secretary
Bank of America Merrill Lynch	Anatoly Kirievsky	Vice President Compliance
BBY Ltd	Arun Mahraj	Chief Executive Officer
BNP Paribas	Justin Christopher	Chief Operating Officer
Chi-X	Jason Keady	Director Markets & Operations
Citi	Nick Pelham	Business Manager – Markets
Commonwealth Bank of Australia	Sheridan Thompson	Head of Development & Innovation, Customer Experience, Equities & Margin Lending
Credit Suisse	Andrew Farran	Chief Operating Officer
Deutsche Bank AG	Russell Deal	Chief Operating Officer
Goldman Sachs	Greg Hanlon	Head of Operations
Macquarie Group	Michael McKeown	Chief Operating Officer
Morgan Stanley	James Pollett	Chief Operating Officer
NSX	Emlyn Scott	Chief Executive Officer
Patersons Securities (by conference call)	Jane Irwin	Head of Operations
Pershing Securities	Rob Forbes	Chief Operating Officer
UBS (by conference call)	Conor Foley	Chief Operating Officer

ASX	
Name	Job Title
Amanda Harkness	Group General Counsel & Company Secretary
Tim Thurman	Chief Information Officer (Agenda Item 3 only)
Alan Bardwell	Chief Risk Officer (Agenda Item 3 only)
Tim Hogben	Executive General Manager, Operations (Agenda Item 3 only)
Danielle Henderson	General Manager, Clearing Services
Andrew White	General Manager, Settlement Services
Rodd Kingham	Senior Manager, Clearing Services
Diane Lewis	Senior Policy Analyst (Committee Secretary)

APOLOGIES

MEMBERS		
Company	Name	Job Title
ABN Amro	Barry Parker	Chief Executive Officer
Bell Financial Group	Dean Surkitt	Managing Director Retail, Bell Potter Securities
HSBC	Andrew Bastow	Head of Securities Services
JP Morgan	Samuel Mann	Chief Operating Officer
Patersons Securities	Sam Budiselik	Chief Operating Officer
RBS Morgans	Sue Gye	Securities Manager
RBS Morgans	Peter Chisolm	Chief Operating Officer

The meeting commenced at 12.00 noon.

Some of the Agenda items were considered out of order. For convenience, they are recorded in the order set out in the Agenda.

AGENDA ITEM 1: INTRODUCTION TO THE CODE OF PRACTICE

The Chair welcomed members to the first meeting of the Business Committee, and invited each member to introduce themselves.

Overview of the Code of Practice

The Chair provided the Committee with a brief overview of the Code of Practice, noting that:

- the Code of Practice became effective on 9 August 2013, following a comprehensive process of consultation with customers and other stakeholders;
- the Code of Practice covers the clearing and settlement of cash equities, structured products, warrants, and exchange traded funds. It does not cover ETOs, OTC derivatives and debt products or non-settlement registry services. While the Code of Practice covers cash market clearing and settlement, the Business Committee can discuss other issues of interest;
- under the Code, ASX has made 3 key commitments:
 1. to establish the Forum, which allows users of ASX's clearing and settlement services to provide input to the Boards of ASX Clear and ASX Settlement on the on-going development of cash market clearing and settlement infrastructure and services. This Business Committee has been established as part of this process;
 2. to provide transparent and non-discriminatory pricing of cash market clearing and settlement services; and
 3. to provide transparent and non-discriminatory terms of access to cash market clearing and settlement services;
- the Forum and this Business Committee will provide important new mechanisms for ASX to engage with its customers and key stakeholders to ensure the ASX's clearing and settlement services are fair, efficient and continue to meet customers' needs;
- the Business Committee and the Forum will not replace the other stakeholder and customer consultation mechanisms that ASX currently uses to deal with specific matters.

Role and Purpose of the Business Committee

The Chair noted that the Business Committee had two key roles:

1. to provide input on the forward work program of the Forum, which will include providing recommendations and findings to the Forum for it to consider in terms of the input it provides the Boards of ASX Clear and ASX Settlement; and
2. to provide specific business and operational input that will assist ASX progress initiatives of interest to the industry, such as messaging standards for CHES and the settlement of warrants.

The meeting noted the proposed Charter attached to the agenda paper setting out the role, governance and operational arrangements for the Committee. The Chair noted that ASX would be happy to receive comments or respond to any queries on the Charter.

AGREED ACTIONS

- There were no agreed actions to take forward on this item following the meeting.

RECOMMENDATIONS TO THE FORUM

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

AGENDA ITEM 2A: CLEARING AND SETTLEMENT SERVICE PERFORMANCE REPORT

The meeting noted the clearing and settlement service performance report included in the agenda paper and, in particular, that for the June 2013 quarter:

- the total traded value (on and off-market) was \$5.3 billion, with 75.5% novated;
- the total cleared value post-netting was \$1.5 billion, with ASX Clear delivering 61.7% netting efficiency;
- the total settled value (including non-novated trades) was \$9 billion, with a settlement efficiency of 99.7%; and
- CHES system availability was 100%.

Members agreed that ASX should continue to provide regular service performance reports to the Committee. Members discussed the possibility of ASX providing more detailed and disaggregated reporting on a number of the service performance metrics (subject to the availability of the data) and requested ASX to:

- provide value and volume-based service performance reporting and consider providing these metrics on a monthly and daily basis to provide for greater understanding of the fluctuations;
- provide greater granularity in the settlement failure reporting;
- provide metrics on cash market margining, including metrics that measure its effectiveness at managing risk. Members agreed that, in the first instance, the margin call for each day should be reported monthly by email. It was also agreed that ASX would develop and distribute a template for reporting this information to Members for comment prior to the next meeting of the Committee;
- consider benchmarking clearing and settlement performance against other clearing and settlement service providers; and
- consider providing individual reports to clearing and settlement participants, which includes a comparison between the participant and an anonymous peer group.

AGREED ACTIONS

- ASX to provide a more detailed service performance report for discussion at the next Committee meeting scheduled for 19 February 2014.
- ASX to develop and distribute a template for reporting on cash market margining to Members for comment prior to the next meeting of the Committee.

RECOMMENDATIONS TO THE FORUM

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

AGENDA ITEM 2B: TRADE ACCEPTANCE SERVICE REPORT

ASX provided a brief overview of the trade verification and trade registration processes for trades executed on ASX and Chi-X submitted for clearing and settlement. It was noted that:

- the Trade Acceptance Service (TAS) provides a mechanism for Chi-X to submit trades into CHESSE for registration, clearing and onward instruction for settlement;
- the TAS provides an equivalent trade verification process to that provided by CORE for trades executed on ASX prior to the trades being submitted to CHESSE for registration, clearing and onward instruction for settlement;
- trade onward instruction for settlement of trades executed on ASX Trade is suspended during the daily settlement cycle and re-commences once settlement completes;
- where the trade verification conditions are not satisfied, trades are rejected and not submitted to CHESSE; and
- under the TAS, Chi-X is notified of trades registered or rejected via CHESSE messaging on a real time basis. Under CORE, ASX has, up until recently, only been notified of rejected trades by exception reporting twice a day.

The meeting noted the TAS quarterly performance report included in the agenda paper and, in particular, that for the June 2013 quarter:

- the average monthly system availability of the TAS was 100%; and
- 11,292,289 trades were process through the TAS and 4 trades were rejected.

The meeting discussed why trades executed on Chi-X must be submitted through the TAS and not submitted through the same 'gateway' as trades executed on ASX Trade. It was noted that the TAS was designed to verify trades from an external party which would have different security requirements, and to satisfy specific messaging requirements of Chi-X for continuous validation of trades during batch settlement and real time acknowledgement of trade acceptance and trade rejection.

Members agreed that ASX should continue to provide regular TAS service performance reports to the Committee. It was also agreed that future reporting should include the same metrics for trades executed on ASX, subject to the data being available.

AGREED ACTIONS

- ASX to provide a TAS service performance report, together with equivalent metrics on the trades executed on ASX Trade that are accepted and rejected, for discussion at the 19 February 2014 Committee meeting.

RECOMMENDATIONS TO THE FORUM

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

AGENDA ITEM NO 3: BUSINESS MATTERS – OVERVIEW OF THE THEMES AND INITIATIVES AND A FORWARD WORK PROGRAM

ASX Executives Messrs Tim Thurman (Chief Information Officer), Alan Bardwell (Chief Risk Officer) and Tim Hogben (Executive General Manager, Operations) joined the meeting at 1.05pm.

The meeting noted the agenda paper setting out the possible themes and topics for a forward work program for the Business Committee and the Forum. Members broadly agreed that the topics included in the agenda paper were the right topics for the forward work program. The Chair noted that other topics could be added or priorities adjusted if the needs of the market changed over time. The meeting discussed the relative prioritisation of the topics, with Members agreeing to change the priority of some of the topics.

In relation to the theme on capital efficiency and industry economics, Members agreed that:

- the topics for consideration were the appropriate topics and that there were no obvious topics missing;
- an interim report providing updated international benchmarking of the costs of clearing and settlement services be discussed at the next Committee meeting scheduled for 19 February 2014 (further discussion on this issue at the meeting is recorded under agenda item 4);
- any changes to come out of the capital and risk review should be communicated to participants as soon as possible rather than being held over until the 19 February 2014 Committee meeting; and
- ASX should consider margin implications of options transfers. Noting that this was outside the scope of the Code of Practice, it was agreed that this issue should be taken forward outside the Committee.

In relation to the theme on participant structure flexibility and efficiency, Members agreed that:

- the topics for consideration were the appropriate topics and that there were no obvious topics missing. Members also agreed the proposed prioritisation and timeframes for considering the respective topics; and
- a more detailed roadmap of initiatives aimed at improving participant structure flexibility and efficiency be provided to the Committee for discussion at its 19 February 2014 meeting.

In relation to shadow broking, some Members queried whether this topic should be included in the forward work program. Members agreed that ASX should undertake further targeted consultation with industry to identify the issues and any concerns before the Committee consider whether to endorse this topic for inclusion in the forward work program. It was agreed that ASX would present its findings from consultation to the Committee at its 19 February 2014 meeting.

In relation to the theme on service innovation, Members agreed that:

- the topics for consideration were the appropriate topics and that there were no obvious topics missing; and
- consideration of T+2 settlement should be brought forward from the Committee's 7 May 2014 meeting to its 19 February 2014 meeting on the basis that the introduction of a T+2 settlement cycle would reduce costs associated with cash market margining. Members also agreed that the timing of the batch cut-off, together with an international comparison of batch cut-offs in relevant Asian markets, be considered at the same time.

In relation to the theme on technology and infrastructure enhancements, Members agreed that the discussion on the ASX infrastructure investment program should be brought forward from the Committee's meeting scheduled for 7 May 2014 to its 19 February 2014 meeting.

In relation to the topic on CHES replacement, ASX noted that while this topic is not of high priority in the short term, it is something that should be discussed with industry as ASX will be examining the feasibility of replacing CHES in the next 12 to 24 months.

AGREED ACTIONS

- ASX to provide an interim report setting out updated international benchmarking of the costs of cash market clearing and settlement services for discussion at the 19 February 2014 Committee meeting.
- ASX to provide a more detailed roadmap of initiatives aimed at improving participant structure flexibility and efficiency for discussion at the 19 February 2014 Committee meeting.
- ASX to undertake targeted consultation with participants on shadow broking in order to present the findings on the key issues and any concerns at the 19 February 2014 Committee meeting.
- To bring forward the consideration of a T+2 settlement cycle in the forward work program from the Committee's 7 May 2014 meeting to its 19 February 2014 meeting.
- To consider the timing of the batch cut-off, together with an international comparison of batch cut-offs in relevant Asian markets, at the 19 February 2014 Committee meeting.
- To bring forward the discussion of the ASX infrastructure investment program in the forward work program from the Committee's 7 May 2014 meeting to its 19 February 2014 meeting.

RECOMMENDATIONS TO THE FORUM

- Subject to the revised timing for the consideration of particular topics as agreed by the Committee in the meeting being reflected in the forward work program, the Business Committee endorses the forward work program for provision to the Forum.

AGENDA ITEM 3A: PARTICIPANT STRUCTURES - TIERED CAPITAL FOR GENERAL PARTICIPANTS

ASX provided the Committee with a brief overview of its proposal to consult on the introduction of tiered minimum core capital requirements for general clearing participants (also known as, third party clearers (TPCs)). It was noted that:

- the minimum core capital requirements for TPCs, which is currently set at \$20 million, have increased significantly following the global financial crisis. This increase has been raised with ASX by a number of participants as a barrier to entry;
- ASX is planning to consult in Q4 2013 on a proposal to amend the minimum core capital requirements for TPCs to the following:
 - a \$5 million minimum core capital requirement for the provision of limited general clearing services to a maximum of one external client or non-wholly owned related entity; and
 - an increase of the minimum core capital requirement by \$5 million for each additional client up to a maximum of \$20 million as a transitional arrangement.
- the objective of the proposal is to develop an overall approach that appropriately reflects the (CCP and systemic) risk characteristics of different participant types. Tiered minimum core capital requirements may encourage additional TPCs and facilitate restructuring of existing participants' business structures;
- recent market developments provide the basis for examining the merit of introducing tiered minimum core capital requirements, such as:

- the introduction of cash market margining by ASX Clear to cover the risk exposures of clearing participants; and
- the exit of some TPCs from the market and the resulting lack of third party clearing providers for retail brokers.

The meeting discussed the importance of ensuring that any changes to the minimum core capital requirements do not introduce additional risk in the system and that the long term objective should be to transition start-up TPCs to be fully capitalised and comply with the minimum core capital requirement of \$20 million.

One Member expressed the view that this proposal was not a priority for the industry. No other Members expressed a similar view.

Members agreed that a consultation paper on this matter would benefit from the inclusion of an international comparison of the requirements in other relevant markets and an explanation of the interplay between the minimum core capital requirements and margining to protect against other risk exposures.

The meeting discussed the need for ASX to discuss the proposal with the RBA prior to releasing a consultation paper.

AGREED ACTIONS

- ASX to include in the consultation paper on tiered minimum core capital requirements for TPCs an international comparison of the requirements in other relevant markets and an explanation of the interplay between the minimum core capital requirements and margining to protect against other risk exposures.

RECOMMENDATIONS TO THE FORUM

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

AGENDA ITEM 3B: SERVICE INNOVATION - MESSAGING STANDARDS IN CHESSE

ASX provided the Committee with a brief overview of the proposal to introduce an industry-accepted global messaging standard as an alternative to CHESSE proprietary messaging.

A number of Members expressed support for the introduction of a global messaging standard on the basis that it would reduce costs for participants who operate in multiple markets and who either are required to operate a separate back office system in Australia or use a translator to modify the proprietary messaging of CHESSE into a global standard.

Members were also supportive of the ASX proposal on the basis that the global messaging standard was being offered as a choice and that those participants primarily focused on the Australian domestic market who do not want to change their back office systems can continue to use CHESSE proprietary messaging.

Members agreed that SWIFT/ISO 20022 is the appropriate global protocol to be offered as an alternative to CHESSE proprietary messaging.

In relation to a query from a Member regarding how long it would take to introduce SWIFT messaging, it was noted that from preliminary discussions between ASX and SWIFT, the introduction of SWIFT messaging could potentially be implemented within 6 to 12 months. Furthermore, it was noted that SWIFT messaging could potentially be delivered earlier if it were to be limited in the first instance to a suite of core messages rather than be applied to the full set of 400 plus messages, some of which are very rarely used.

Members agreed that the initiative to introduce SWIFT messaging as an alternative to CHES proprietary messaging should be prioritised, subject to ensuring that customers who choose to use the existing CHES messaging are unaffected, and that a technical committee should be established to provide more detailed input to ASX to assist in progressing the initiative.

The Chair invited members to put forward the relevant technical experts from their organisations for appointment to the technical committee, and also noted that representatives from system vendors would also be invited to participate in the technical committee.

AGREED ACTIONS

- To establish a technical committee to examine and provide input to ASX and the Forum on the introduction of SWIFT messaging as an alternative to CHES proprietary messaging.
- The Secretariat to write to Members and system vendors regarding the nomination of the relevant individuals to participate in the technical committee.

RECOMMENDATIONS TO THE FORUM

- The Business Committee recommended that the introduction of SWIFT messaging as an alternative to CHES proprietary messaging should be included in the forward work program as a priority project.

AGENDA ITEM 3C: CAPITAL EFFICIENCY AND INDUSTRY ECONOMICS - FINANCIAL STABILITY STANDARDS

ASX briefed the Committee on the ASX consultation paper 'Financial Stability Standards Implementation: Cash Equity Market Account Segregation and Portability, and Rescheduled Settlements', which was released for comment on 29 July 2013. It was noted that:

- clearing of cash market transactions is currently structured such that ASX Clear operates a single house account for each clearing participant that comingles and nets all proprietary (house) and client unsettled novated transactions;
- the requirements contained under FSS sub-standard 13.2 suggests that the existing single house account structure as a stand-alone solution will not be an acceptable option for the cash market;
- the consultation paper puts forward two options for achieving compliance with the new FSS requirements:
 1. introduce a client omnibus account – which would require clearing participants to designate each trade as either a client transaction or a house transaction. The consultation paper canvasses three options to achieve this outcome; and
 2. introduce an individually segregated client account – which would require clearing participants to allocate the trades of each client to an individual client account while house positions would be allocated to a single house account.

ASX advised that the new Financial Stability Standards (FSS) for Financial Market Infrastructures released by the Reserve Bank of Australia (RBA) in December 2012 took effect on 29 March 2013. The new FSS apply to ASX Clear and ASX Settlement. However, ASX has received transitional relief until March 2014 from some of the new CCP requirements under the FSS relating to segregation and portability, and liquidity risk.

The meeting discussed the timing for the implementation of the new CCP requirements for account segregation and portability, and noted the low appetite by regulators for extending the transitional relief beyond March 2014. It was noted that while it was unlikely that the relief will be extended

beyond March 2014, the new requirements may not be implemented in full by that date so long as there is a reasonable plan and timeline for implementation.

The meeting noted that ASX will be holding a presentation and question and answer session, with Mr Mark Manning, Deputy Head, Payments Policy Department of the RBA attending, at ASX's Sydney offices on 26 August 2013. ASX also indicated a willingness to engage bilaterally with interested stakeholders over the course of the consultation period.

The meeting noted that submissions in response to the ASX Consultation Paper are due by 4 September 2013.

ASX encouraged interested Committee Members and/or their colleagues to attend the question and answer session being held on 26 August 2013, and to provide feedback on the important issues discussed in the Consultation Paper.

AGREED ACTIONS

- There were no agreed actions to take forward on this item following the meeting.

RECOMMENDATIONS TO THE FORUM

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

AGENDA ITEM 4: ADMINISTRATIVE MATTERS

Publication dates for clearing and settlement economics

ASX advised the Committee that management accounts for the clearing and settlement of cash equities in Australia will be published, together with ASX's full-year results, on 22 August 2013. The management accounts have been audited by an independent auditor. It was also noted that ASX will publish its cost allocation and transfer pricing policy on 22 August 2013.

ASX noted that under the Code there was a commitment for ASX to annually commission international benchmarking on the cost of clearing and settlement services from an independent consulting firm. ASX will consult the Forum and this Committee on the scope and methodology of the benchmarking prior to it being commissioned. ASX noted that it had planned to consult the Committee on this matter at its 7 May 2014 meeting and consult the Forum at its 23 June 2014.

The Committee discussed the possibility of earlier consideration of updated international benchmarking. The Committee agreed that an interim report providing updated international benchmarking of the costs of clearing and settlement services be discussed at the 19 February 2014 Committee meeting. As a possible input to this process, the meeting discussed the possibility of Members providing international benchmarking data that they have to the Business Committee Secretariat. The Committee agreed that the Secretariat would write to Members following the meeting on this matter.

Formation of technical committees

The meeting noted the ability to establish technical committees to examine specific issues as required.

In addition to a technical committee being established to examine the introduction of global messaging standards, the meeting noted that other topics, such as the possible replacement of CHES, being considered by the Committee and the Forum over the next 18 months may require a technical committee to be established.

Reporting to the Forum

Members agreed that the Committee would report to the Forum by way of the provision of the Committee's meeting minutes and a covering page setting out the any recommendations and the key issues discussed. The meeting minutes and covering page will be provided to Forum Members with the papers for the Forum meeting held directly after the relevant Business Committee meeting.

Raising matters for discussion

The Chair invited Members to put forward suggestions for discussion in future meetings.

The meeting noted that matters for discussion could be raised either during meetings or by contacting the Chair or Ms Henderson.

AGREED ACTIONS

- The Secretariat to write to Members following the meeting in relation to international benchmarking data on cash market clearing and settlement services that may be provided to the Committee.

RECOMMENDATIONS TO THE FORUM

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

AGENDA ITEM 5: NEXT MEETING

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

As there was no further business discussed, the meeting closed at 2.30pm.

Signed as a correct record of the meeting.



Chairman

6 SEPTEMBER 2013

Date

