



## AGENDA

### Business Committee Meeting

Timing: Friday, 16 August 2013 commencing at 12.00pm

Location: ASX offices – Level 1, 20 Bridge Street, Sydney

---

<b>Lunch served on arrival</b>	12.00pm – 12.15pm
<b>1. Introduction to the Code of Practice</b>	12.15pm – 12.35pm
• Introduce members of the Business Committee	
• Overview of the Code of Practice	
• Role and purpose of the Business Committee	
<b>2. Service Performance</b>	12.35pm – 12.50pm
• Clearing & Settlement service performance report	
• Trade Acceptance Service report	
<b>Break</b>	12.50pm – 1.00pm
<b>3. Business Matters</b>	
Overview of the themes and initiatives for a forward work program of the Business Committee and the Forum	1.00pm – 1.45pm
<b>a. Participant structures</b>	1.45pm – 2.10pm
Tiered capital for general participants	
<b>b. Service innovation</b>	2.10pm – 2.35pm
Messaging standards for CHES	
<b>c. Financial Stability Standards</b>	2.35pm – 2.45pm
Segregation of house and client accounts	
<b>4. Administrative Matters</b>	2.45pm – 3.00pm
• Publication dates for Clearing & Settlement economics	
• Formation of technical committees	
• Reporting to the Forum	
• Raising matters for discussion	
<b>5. Next Meeting</b>	
The next meeting of the Business Committee will be held on Wednesday, 19 February 2014, commencing at 12.00pm.	

# BUSINESS COMMITTEE AGENDA PAPER ITEM NO. 2013.01.1

<b>TOPIC</b>	<b>INTRODUCTION TO THE CODE OF PRACTICE</b>
<b>DATE OF THE MEETING</b>	16 August 2013
<b>PURPOSE OF THIS PAPER</b>	To inform the Committee on the operation of the Code of Practice and the basis of their engagement in the Business Committee
<b>PREPARED BY</b>	Danielle Henderson, General Manager, Clearing Services

---

## 1. OVERVIEW OF THE CODE OF PRACTICE

ASX's Code of Practice for Clearing and Settlement of Cash Equities in Australia (the Code) commenced operation on 9 August 2013.

The Code was approved by the Boards of ASX Limited, ASX Clear Pty Limited and ASX Settlement Pty Limited. The Code was also reviewed by the Council of Financial Regulators prior to it being finalised.

ASX developed the Code following an announcement by the former Deputy Prime Minister and Treasurer on 11 February 2013, to defer a decision on any license application from a central counterparty seeking to offer cash equities clearing services in Australia for a period of two years.

The Code reinforces ASX's commitment to ensuring Australia's clearing and settlement infrastructure is efficient, well-capitalised and well regulated, and continues to meet users' needs.

## ASX COMMITMENTS UNDER THE CODE

The Code sets out ASX's commitments in three key areas:

- 1. the establishment of an advisory forum** (the Forum) to allow ASX's clearing and settlement participants, and a wide range of other industry stakeholders that are users of ASX's clearing and settlement services to provide the Boards of ASX Clear and ASX Settlement with user input on the ongoing development of cash market clearing and settlement infrastructure and services
- 2. transparent and non-discriminatory pricing of cash equities clearing and settlement services;**
  - clear and accessible fee schedules with brief service descriptions;
  - transparency of terms, conditions and eligibility criteria applicable to any rebates, revenue-sharing arrangements and discounts;
  - publishing management accounts for the clearing and settlement of cash equities in Australia by ASX Clear and ASX Settlement; and
  - international price benchmarking of cash equity clearing and settlement services.
- 3. transparent and non-discriminatory terms of access to cash equities clearing and settlement services;**
  - access requests considered in a timely manner;

- protocols and procedures for responding to access requests by alternative market operators (AMOs) and alternative listing market operators (ALMOs);
- information handling standards for AMOs and ALMOs; and
- dispute resolution processes.

## **THE FORUM**

Under the Code, ASX committed to establish an advisory forum (the Forum) comprising senior representatives from ASX's clearing and settlement participants, and a wide range of other industry stakeholders that are users of ASX's clearing and settlement services.

The Forum will provide a new mechanism for ASX to engage with users of clearing and settlement services to help ensure that the ongoing development of cash market clearing and settlement infrastructure and services meet the needs of users and are aligned with global standards.

The Forum will meet at least three times a year and will provide user input to the Boards of ASX Clear and ASX Settlement in relation to the ongoing development of cash market clearing and settlement infrastructure and services.

The Forum will be supported by a Business Committee comprising representatives of clearing participants, settlement participants and alternative market operators. The Business Committee will provide business and operational input into the forward work program of the Forum.

## **FORUM & BUSINESS COMMITTEE AGENDAS**

The Forum and therefore the Business Committee will focus on four major themes:

1. Capital efficiency and industry economics;
2. Participant structure flexibility and efficiency;
3. Service innovation; and
4. Technology and infrastructure enhancement.

Forum members have been provided with a list of possible themes and topics for their input and the development of a forward work program for the Forum and the Business Committee. The forward work program will be considered at the first meeting of the Forum.

## **2. ROLES AND RESPONSIBILITIES OF THE BUSINESS COMMITTEE**

### **BUSINESS COMMITTEE**

Under the Code, ASX committed to establish a Business Committee to support the Forum. The Business Committee will provide business and operational input on the forward work program of the Forum.

The Business Committee will provide recommendations to the Forum and will also help ASX progress initiatives of interest to the industry with the aim of improving efficiency and developing new business opportunities.

The Business Committee will comprise representatives of clearing participants, settlement participants and market operators.

The Business Committee comprises executives with a deep understanding of clearing and settlement, for example, Chief Operating Officers, Heads of Clearing or Heads of Custody. The nominated representatives of the Business Committee may choose to invite other executives from their organisations (for example, Heads of Equity or Technology) as appropriate to attend Business Committee meetings when the agenda is of relevance to them.

## **AGENDA SETTING, MINUTES AND REPORTS FROM THE BUSINESS COMMITTEE**

The Business Committee will function in a very transparent way with the publication of meeting agendas, minutes and reports to the Forum on <http://www.asx.com.au/cs/>.

Agendas will be set by the Business Committee Chair in consultation with Business Committee members. Agendas will be publicly available 1 week prior to the relevant Business Committee meeting.

Business Committee meeting minutes and any Business Committee reports to the Forum will be kept and approved by the Business Committee Chair. The Business Committee Chair will circulate draft meeting minutes and any draft reports to the Forum following meetings to provide members with an opportunity to comment on those documents. The minutes and Business Committee reports will be publicly available as soon as practicable after they have been provided to the Forum.

## **ATTACHMENTS**

1. Business Committee Charter
2. Business Committee Members
3. Forum Members

# ATTACHMENT 1 - Business Committee Charter

## CHARTER OF THE ASX BUSINESS COMMITTEE

The ASX Business Committee was convened by ASX Limited (ASX) and the Forum in August 2013. ASX committed to establish the Forum and the Business Committee under the Code of Practice for Clearing and Settlement of Cash Equities in Australia, which became effective on 9 August 2013.

This charter sets out the role, membership and administrative matters for the effective functioning of the Business Committee.

### 1. Role of the Business Committee

The role of the Business Committee is to provide:

- recommendations and business and operational input on the forward work program of the Forum; and
- advice to ASX to assist in progressing cash market clearing and settlement initiatives of interest to industry, with the aim of facilitating service innovation and improving efficiency.

The Business Committee will report to the Forum.

### 2. Membership

The Business Committee will comprise representatives of clearing participants, settlement participants and alternative market operators. The members of the Business Committee as at the first meeting of the Business Committee on 16 August 2013 are listed in Attachment 2.

Each Business Committee member is invited to nominate a representative to attend meetings of the Business Committee who has the authority to speak on its behalf and has the expertise to make a meaningful contribution at such meetings.

The objective is for the Business Committee to comprise executives with a deep understanding of clearing and settlement, for example, Chief Operating Officers, Heads of Clearing or Heads of Custody. The nominated representatives of the Business Committee may choose to invite other executives from their organisations (for example, Heads of Equity or Heads of Technology) as appropriate to attend Business Committee meetings when the agenda is of relevance to them. This is subject to prior notification being provided to the Business Committee secretariat.

Forum members, ASX Clear and ASX Settlement can nominate members of the Business Committee. Members of the Business Committee need not be members of the Forum.

### 3. Chair of the Business Committee

ASX shall appoint the Chair of the Business Committee.

The role of the Chair is to:

- convene, set the agenda for, and preside over meetings of the Business Committee;

- take a leadership role in facilitating discussion and forging a consensus among Business Committee members on matters being considered by the Business Committee; and
- report to the Forum on Business Committee discussions and recommendations of the Business Committee.

#### **4. Meetings of the Business Committee**

The Business Committee will meet at least three times a year. Meetings will generally be held four to six weeks prior to Forum meetings.

The Chair may determine that more than three meetings be held in a year after consulting the members.

All recommendations to the Forum shall be made on the basis of a broad consensus of those members present and expressing a view on the matter at the relevant meeting of the Business Committee. The Chair will determine whether a broad consensus has been achieved.

Meeting agendas and associated papers will be circulated to members one week prior to the relevant meeting.

All meetings of the Business Committee are to be minuted. The minutes will be circulated to members electronically following each meeting for approval to allow the minutes to be included in the agenda for the next Forum meeting.

Any reports from the Business Committee to the Forum will be prepared by the Chair and will be circulated to members electronically following each meeting for approval to allow the reports to be included in the agenda for the next Forum meeting.

#### **5. Business Committee Secretariat**

ASX shall provide a secretariat service to the Business Committee. The secretariat will:

- arrange the venue and circulate notices for meeting of the Business Committee;
- prepare agendas, minutes and other documents for meetings of the Business Committee;
- maintain the pages of the ASX website dedicated to the Business Committee; and
- arrange the publication of meeting agendas, minutes and other relevant documents of the Business Committee.

## ATTACHMENT 2 - Business Committee Members

Company	Name	Job Title
ABN Amro	Barry Parker	Chief Executive Officer
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 Christoper	Chief Operating Officer
Chi-X	Jamie Crank	Head of Market 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	Russel Deal	Chief Operating Officer
Goldman Sachs	David Acton	Managing Director, Securities Division
HSBC	Andrew Bastow	Head of Securities Services
JP Morgan	Samuel Mann	Chief Operating Officer
Macquarie Group	Michael McKeown	Chief Operating Officer
Morgan Stanley	James Pollett	Chief Operating Officer
NSX	Emlyn Scott	Chief Executive Officer
Patersons Securities	Sam Budiselik	Chief Operating Officer
Pershing Securities	Rob Forbes	Chief Operating Officer
RBS Morgans	Peter Chisolm	Chief Operating Officer
UBS	Conor Foley	Chief Operating Officer

## ATTACHMENT 3 - Forum Members

Company	Name	Job Title
<b>Users of clearing and settlement services</b>		
Chi-X Australia	Mr John Fildes	Chief Executive Officer
Citi Australia	Mr Stephen Roberts	Chief Executive Officer, Chief Country Officer
CommSec representing Commonwealth Bank of Australia	Mr Stephen Karpin	Executive General Manager, Equities and Margin Lending
Deutsche Bank AG	Mr John Macfarlane	Executive Chairman
HSBC Bank Australia	Mr Tony Cripps	Chief Executive Officer
J.P. Morgan	Mr Robert Priestley	Chief Executive Officer, ASEAN and Australia and New Zealand
Macquarie Securities Group	Mr Stevan Vrcelj	Group Head
Morgan Stanley Australia	Mr Steve Harker	Managing Director and Chief Executive Officer
Patersons Securities	Mr Michael Manford	Executive Chairman and CEO
Pershing Securities	Mr Craig Mason	Chief Executive Officer
UBS Australasia	Mr Matthew Grounds	Chief Executive Officer
<b>Industry stakeholders</b>		
Australian Financial Markets Association	David Lynch	Executive Director
Stockbrokers Association of Australia	David Horsfield	Managing Director and CEO
Financial Services Council representing the funds management industry	Greg Cooper	Deputy Chairman, FSC
Link Market Services representing share registries	Phillip Muhlbauer	Chief Executive Officer, Link Market Services and Link Super
GBST representing system vendors	Stephen Lake	Managing Director and Chief Executive Officer



<b>Company</b>	<b>Name</b>	<b>Job Title</b>
Australian Custodial Services Association (ACSA) representing custodial services providers	Martin Carpenter	ACSA Director and Executive Sponsor for the Custody Operations Working Group
Australian Payments Clearing Association (APCA)	Chris Hamilton	Chief Executive Officer, APCA
Group of 100 (G100) representing listed companies	Mr Terry Bowen	President, G100
Association of Superannuation Funds of Australia (ASFA) representing the superannuation industry	Gordon Noble	Director Investments and Economy, ASFA
<b>ASX</b>		
ASX Clear and ASX Settlement Boards	Mr Russell Aboud	Director and Forum Chair
ASX Limited Board	Dr Ken Henry AC	Director

# BUSINESS COMMITTEE AGENDA PAPER ITEM NO. 2013.01.2

**TOPIC** CLEARING AND SETTLEMENT SERVICE PERFORMANCE REPORT

**DATE OF THE MEETING** 16 August 2013

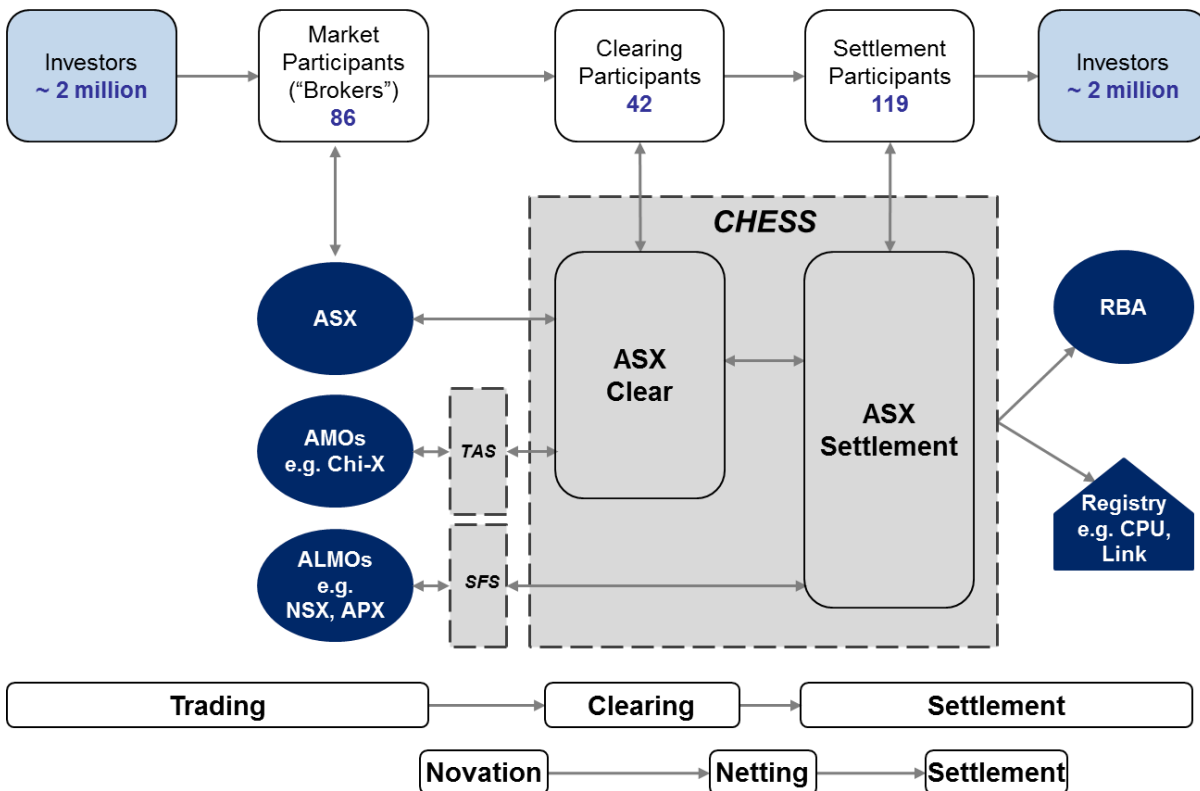
**PURPOSE OF THIS PAPER** To report on key metrics relating to the performance of ASX's clearing and settlement services

**PREPARED BY** Andrew White, General Manager, Settlement Services  
Danielle Henderson, General Manager, Clearing Service

## INTRODUCTION

### Background

The clearing and settlement of equities performs a critical role in the operation of Australia's financial markets, helping to reduce counterparty and systemic risk, and provide transaction efficiency and certainty for end investors.



Core processes that achieve this include novation, netting and settlement and are supported in ASX's core system CHESS where stability and availability are critical.

### Novation- delivering risk protection to the industry

Through a contractual process known as novation, ASX Clear becomes the seller to every buyer and the buyer to every seller, making it liable for completing all cleared transactions on the relevant market. Novation is deemed to occur at the point of trade and performs two important functions:

- it replaces the clearing participants' credit exposures to other clearing participants by substituting the clearing house as the central counterparty; and,
- it enables the netting of settlement obligations.

Through novation, ASX Clear provides protection to non-defaulting clearing participants (and, indirectly, their clients) from the inability of a defaulting clearing participant to meet its obligations.

A key metric for monitoring novation is the percentage of on and off market trading that is novated.

### **Netting-delivering industry efficiency**

ASX Clear is approved as a 'netting market' for the purposes of the Payment Systems and Netting Act. This enables the netting of settlement obligations in each individual equity, providing greater market efficiency at the time of settlement and reducing participant transaction and funding costs.

A key metric for monitoring this netting is the percentage by which novated value is netted down for settlement. This metric is termed "netting efficiency".

### **Settlement-delivering certainty**

ASX's model for settlement maximises efficiency, while minimising the risk of settlement failure. It does this by simultaneously transferring the legal ownership of shares and facilitating the transfer of money for those shares. This is done through a Model 3 multilateral net batch settlement mechanism with irrevocable settlement finality at the end of the processing cycle. The transfer of money occurs across the Exchange Settlement Accounts of payment providers in the RBA's Information and Transfer System (RITS).

A key metric for monitoring settlement is the percentage of scheduled settlement that successfully settles (i.e. the opposite of the "fail rate"). This metric is termed "settlement efficiency".

### **Service availability -delivering stability**

ASX's critical processes of novation, netting and settlement and are supported in ASX's core system CHES. It is critical for market operations, that CHES remains stable and available for processing.

A key metric for monitoring systems availability is the percentage of systems uptime as measured against target availability times (set at 99.80%). This metric is termed "Service Availability".

## **REPORTING ON CLEARING AND SETTLEMENT SERVICE PERFORMANCE**

The key metrics noted above are reported in attachment 1; in each case they are supported by the underlying data and compared to the prior quarter. They are also supported by charts demonstrating a longer reporting period (of two years) in attachment 2.

These attachments will become a standing agenda item for future Business Committee meetings.

ASX will also use this standing agenda item to report on major events which impacted on the performance of ASX's clearing and settlement services. There were no such events in the June 2013 quarter.

## **QUESTIONS FOR THE BUSINESS COMMITTEE**

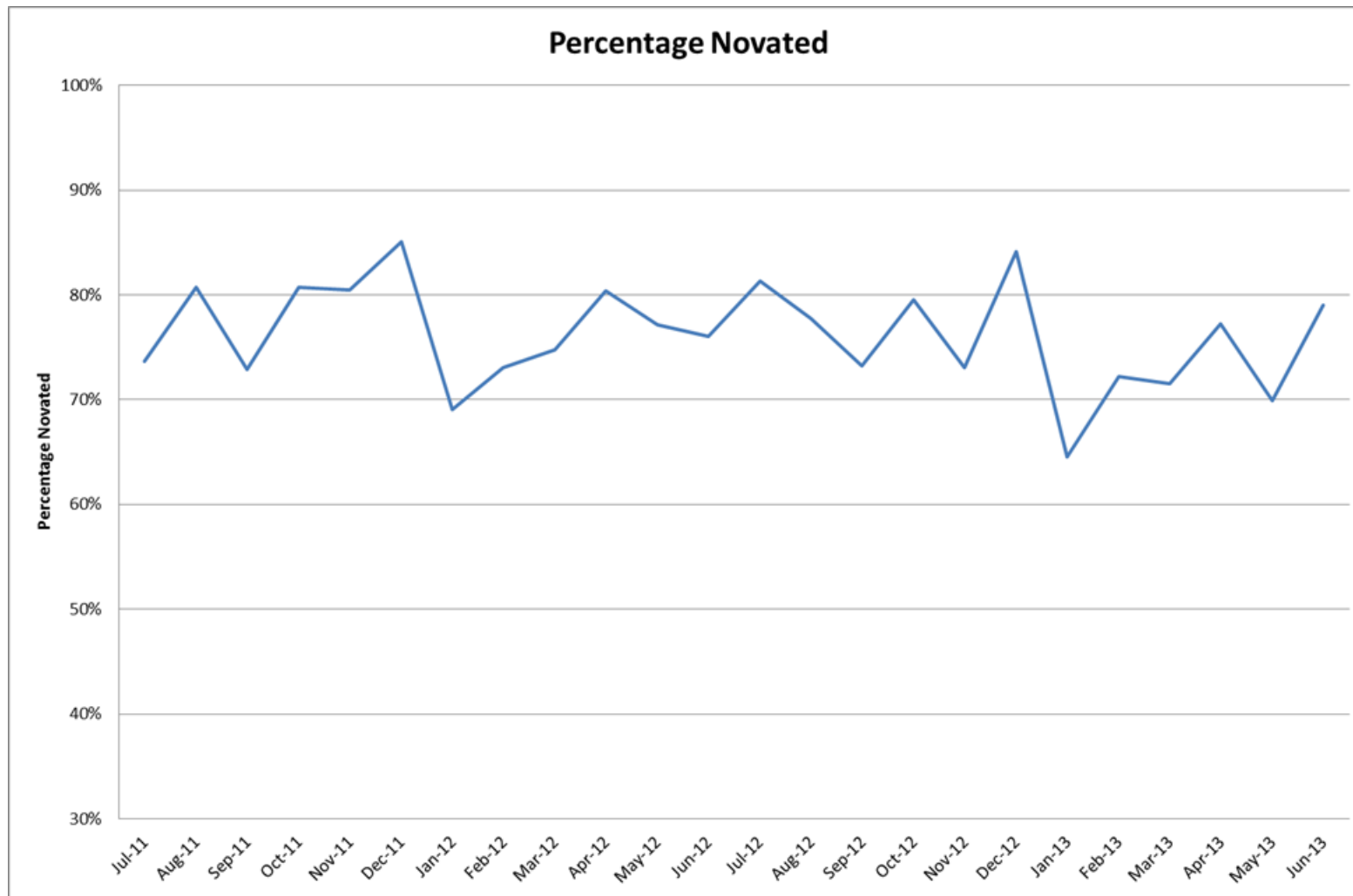
ASX would appreciate feedback from the Business Committee on what other metrics relating to the performance of ASX's clearing and settlement services they would value reviewing at future meetings.

## ATTACHMENT 1 – Summary metrics relating to the performance of ASX’s Clearing and Settlement services

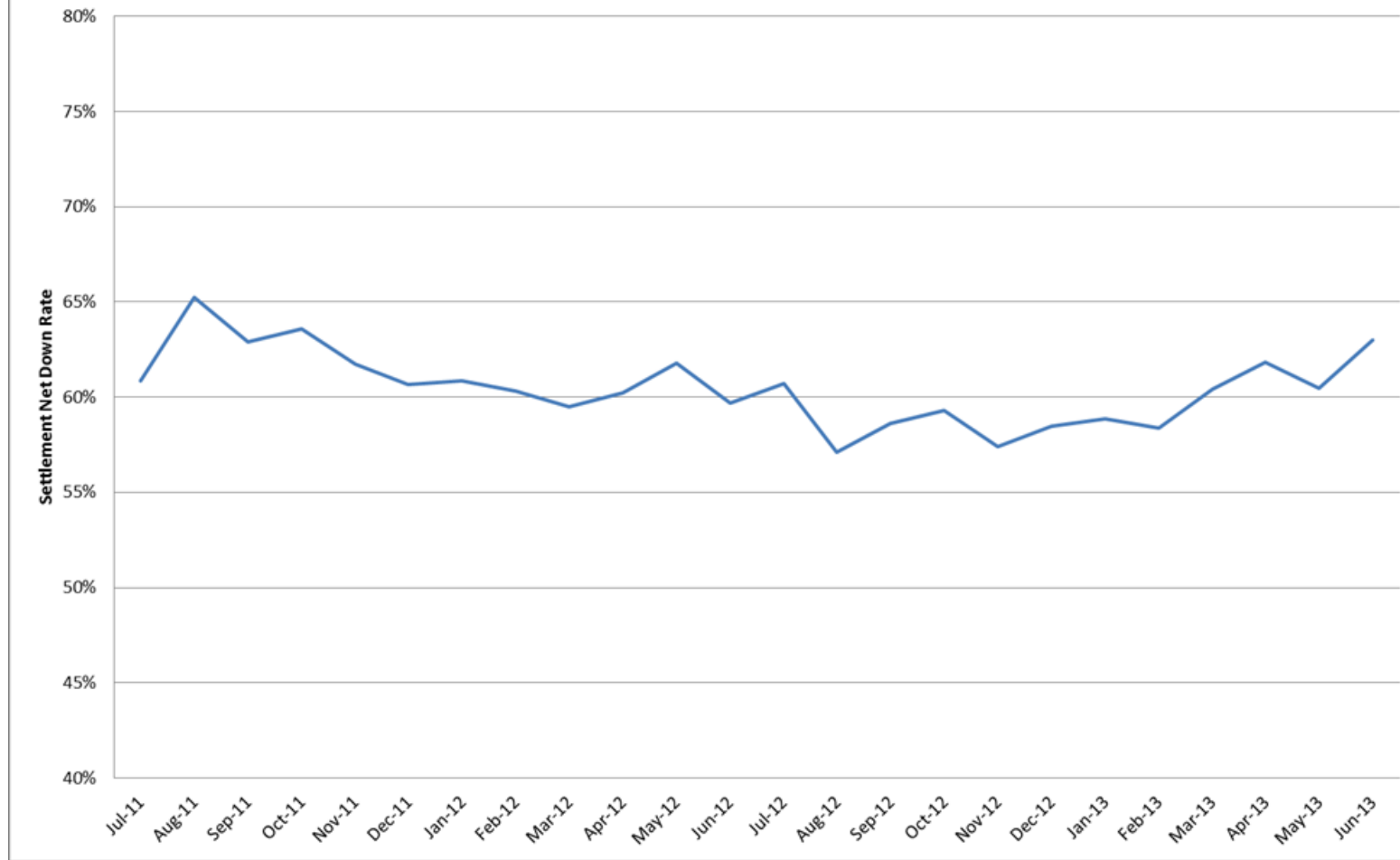
	June 2013 Quarter	March 2013 Quarter
Total Traded Value (On and Off Market)	\$5.3 billion	\$5.0 billion
Total Cleared Value	\$4.0 billion	\$3.5 billion
Percentage Novated	75.5%	70.0%
Total Cleared Value Post-Netting	\$1.5 billion	\$1.4 billion
Netting Efficiency	61.7%	59.3%
Total Settled Value (Including Non-Novated)	\$9.0 billion	\$8.7 billion
Settlement Efficiency	99.7%	99.7%
Systems Availability	100%	100%

Note all value measures are average daily values.

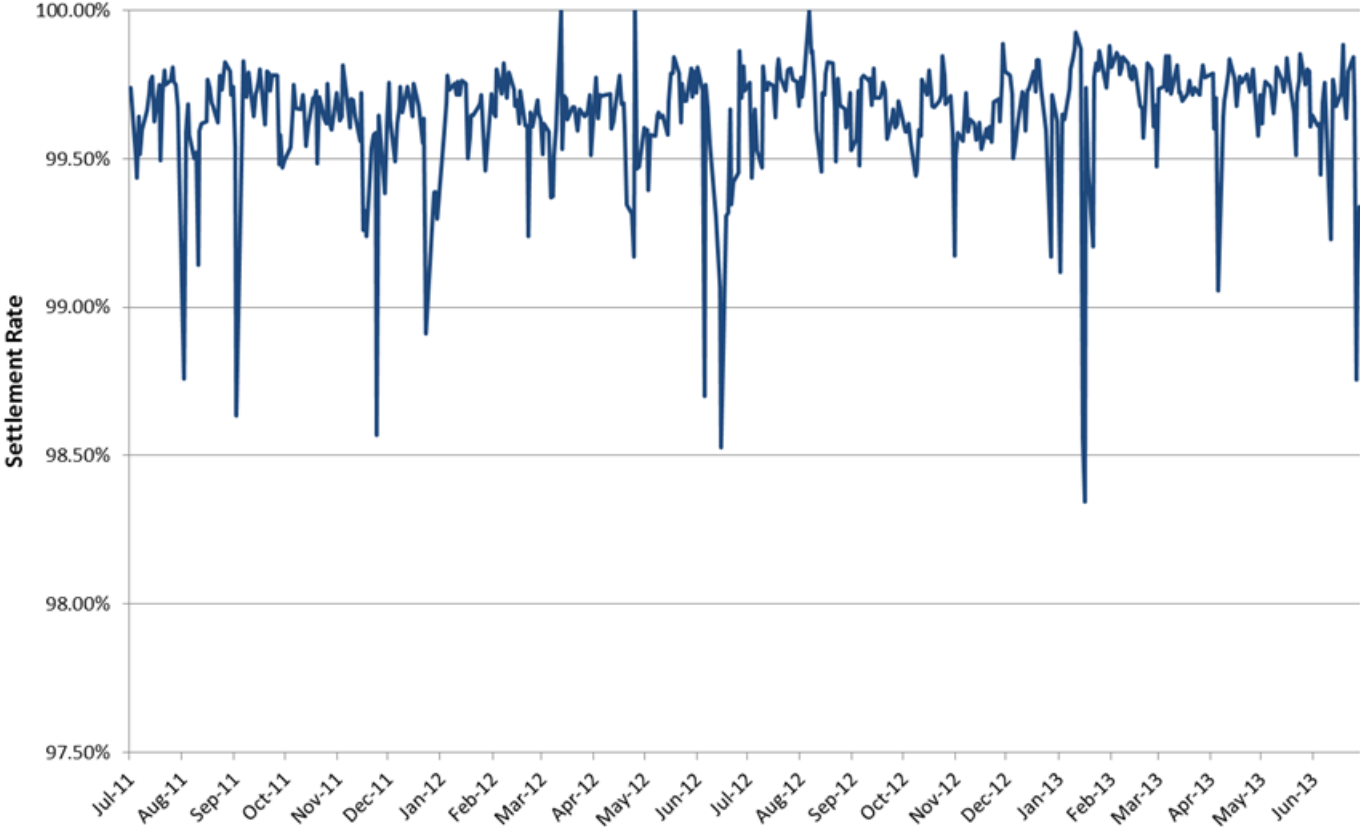
## ATTACHMENT 2 – Charts showing the performance of ASX's Clearing and Settlement services



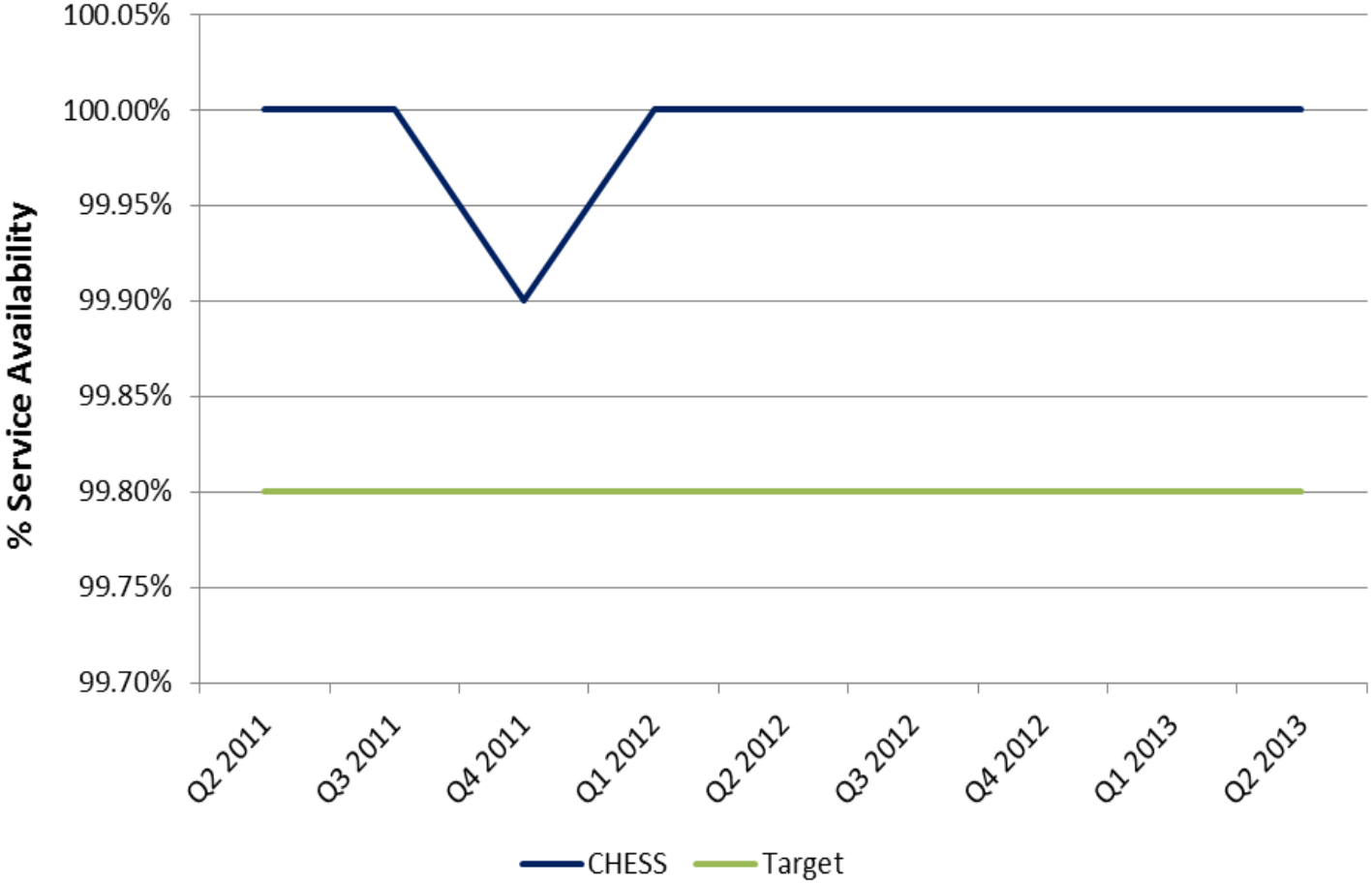
### Netting Efficiency



# Settlement Efficiency



# Service Availability





## **BUSINESS COMMITTEE AGENDA PAPER ITEM NO. 2013.01.2A**

<b>TOPIC</b>	<b>TRADE ACCEPTANCE SERVICE REPORT</b>
<b>DATE OF THE MEETING</b>	16 August 2013
<b>PURPOSE OF THIS PAPER</b>	Report on the performance of ASX's Trade Acceptance Service
<b>PREPARED BY</b>	Danielle Henderson, General Manager, Clearing Service

---

### **ASX CLEAR SERVICE OVERVIEW**

Trades executed on ASX and Chi-X are submitted to ASX Clear for registration following a verification process by CORE (ASX) or the Trade Acceptance Service (Chi-X). Once registered by ASX Clear, each cash market trade is replaced with a cash market CCP transaction between each participant and ASX Clear. This process is novation. The novated transactions of ASX Clear are submitted to ASX Settlement for settlement in the CHES batch on a T+3 basis. Clearing and settlement services are provided to clearing and settlement participants in the same way irrespective of whether the trades are executed on ASX or Chi-X.

### **TRADE VERIFICATION**

#### **Verification by the Trade Acceptance Service**

ASX Clear's Trade Acceptance Service (TAS) provides a mechanism for Chi-X to submit trades into the clearing house. The CHES system performs the clearing and settlement functions.

The TAS provides trade verification so that trades can be sent to CHES for Chi-X (and any others that may in future use the TAS). Trades are then submitted to CHES for registration, clearing and onward instruction for settlement services.

#### **Verification by CORE**

CORE provides a mechanism that performs a verification process for ASX to report trades into the clearing house. The CHES system performs the clearing and settlement functions.

CORE provides trade verification for ASX trades so that trades can be sent to CHES for registration. CORE provides trade verification so that trades can be sent to CHES for clearing and onward instruction for settlement. Trade onward instruction for settlement is suspended during the daily settlement cycle and re-commences once settlement completes.

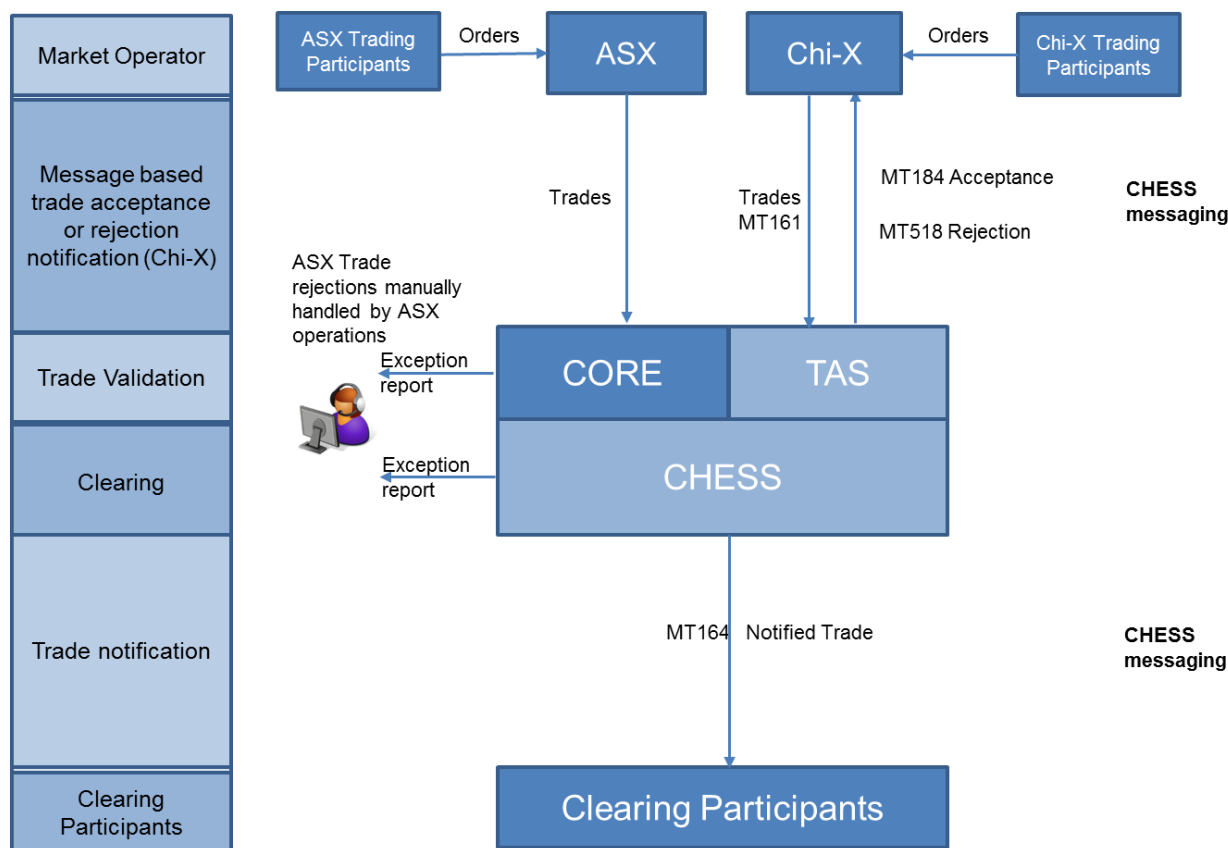
### **TRADE REGISTRATION**

CORE and TAS perform verification functions for trades submitted to ASX Clear. Following verification trades are registered for clearing. If the verification conditions are not satisfied then trades are rejected and not submitted to CHES.

Under TAS, Chi-X is notified of trades registered or rejected via Chess messaging on a real time basis. Under CORE, ASX is notified of rejected trades only by exception reporting twice a day.

Once a trade is registered it is novated. Novation is deemed to have occurred at the point of trade. Following novation, ASX Clear provides a notification to clearing participants that the trade has been scheduled for settlement.

The diagram below provides a visual representation of the trade verification, registration, clearing and onward instruction for settlement process for trades executed on ASX and Chi-X.



## TAS QUARTERLY PERFORMANCE REVIEW

ASX Clear reviews its service performance under the TAS and conducts quarterly performance reviews of service standards as defined in the service level agreements.

ASX is engaged in a consultation process with Chi-X on service level commitments.

### Service Availability

The business service availability target for ASX for the TAS is 99.80%.

As at June 2013, the average monthly availability by quarter for TAS exceeded the business service availability target. For the June 2013 quarter, the average monthly system availability was 100% the TAS. As at June 2013, the average availability of the last 12 months of the TAS was 99.993%.

### Service Performance

In the June 2013 quarter, on average ASX Clear through the TAS processed 11,292,289 trades and rejected 4 trade messages. This compares to March quarter, where 8,214,229 trades were processed and 4 were rejected.

## QUESTIONS FOR THE BUSINESS COMMITTEE

ASX would appreciate feedback from the Business Committee on:

- Do members see merit in ASX providing the Business Committee with regular performance reports on the TAS?

## **BUSINESS COMMITTEE AGENDA PAPER ITEM NO. 2013.01.3**

<b>TOPIC</b>	<b>BUSINESS MATTERS OVERVIEW OF THE THEMES AND INITIATIVES FORWARD WORK PROGRAM</b>
<b>DATE OF THE MEETING</b>	16 August 2013
<b>PURPOSE OF THIS PAPER</b>	To seek the Committee's business and operational input into the forward work program of the Forum
<b>PREPARED BY</b>	Danielle Henderson, General Manager, Clearing Services

---

### **INTRODUCTION**

The Business Committee will provide business and operational input on the forward work program of the Forum.

In this meeting we will be seeking the Business Committee's recommendations to the Forum and to help ASX progress initiatives of interest to the industry with the aim of improving efficiency and developing new business opportunities around four major themes:

1. Capital efficiency and industry economics;
2. Participant structure flexibility and efficiency;
3. Service innovation; and
4. Technology and infrastructure enhancement

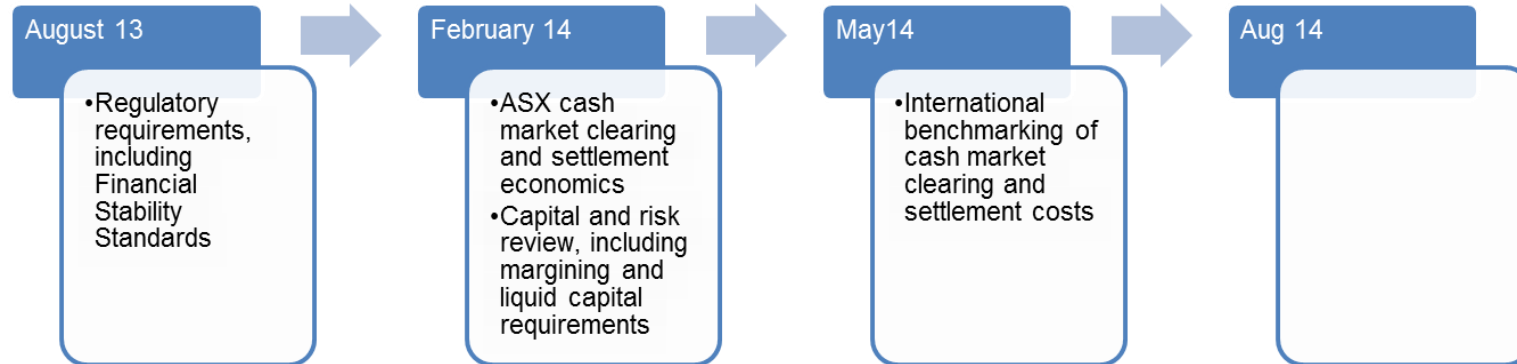
### **QUESTIONS FOR THE BUSINESS COMMITTEE**

ASX would appreciate feedback from the Business Committee on the following questions:

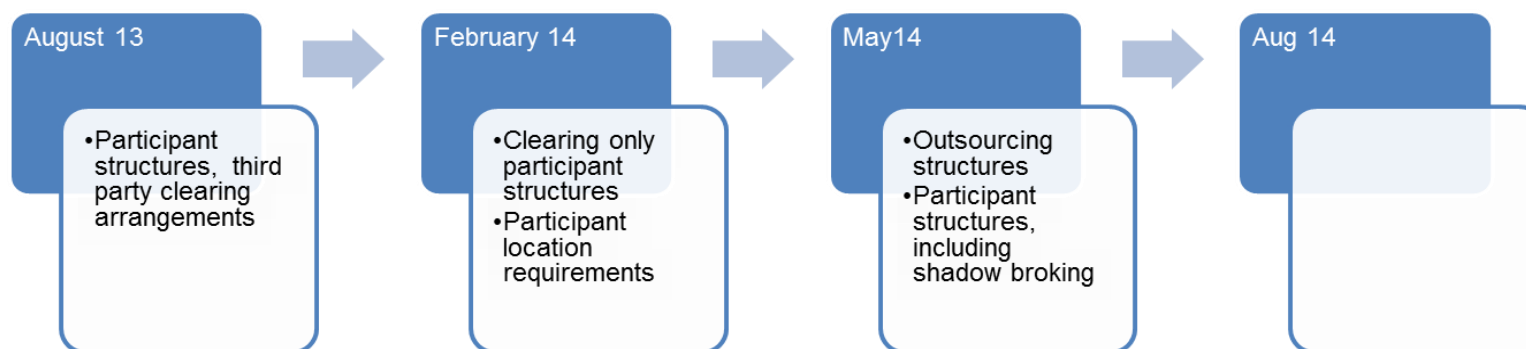
- Does the Business Committee agree that these topics reflect the appropriate topics to present to the Forum?
- Are there additional topics for ASX to consider presenting to the Forum?
- Does the Business Committee agree that the time frames to present these topics are appropriate?

## BUSINESS COMMITTEE THEMES INCLUDING PROPOSED FORUM FORWARD

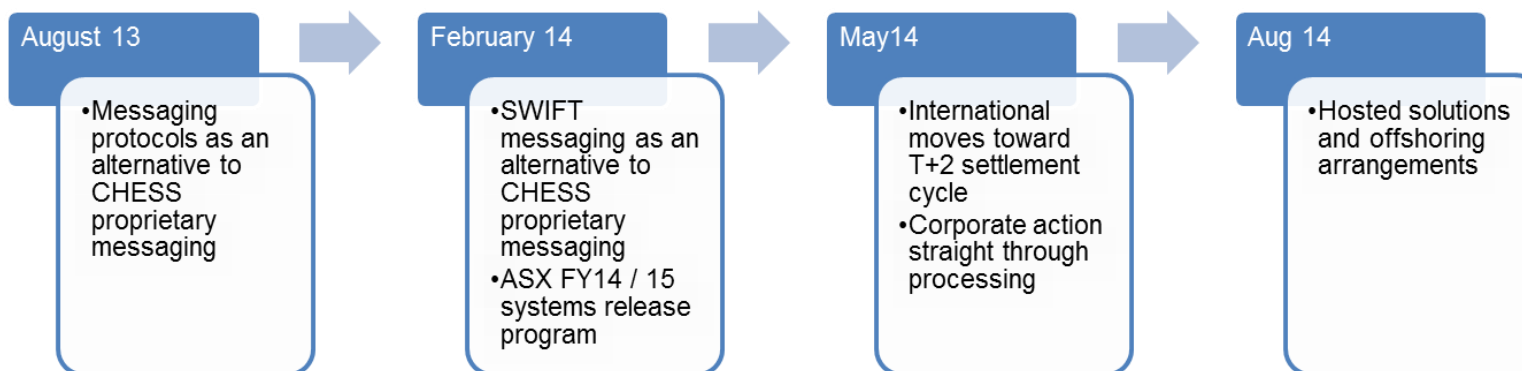
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>1. Capital Efficiency and industry economics</b>	To minimise the capital costs for ASX's customers whilst maintaining robust CCP capital support	a. ASX cash market clearing and settlement economics	ASX will publish management accounts in respect of the clearing and settlement of cash equities in Australia on the 22 <sup>nd</sup> August in line with company results release date. ASX will provide an update at the next Business Committee meeting.
		b. International benchmarking of cash market clearing and settlement costs	ASX Clear and ASX Settlement will consult the Forum – and prior to that the Business Committee – on the scope and methodology of the international price benchmarking prior to it being commissioned.
		c. Capital and risk review, including margining and liquid capital requirements	ASX will provide a review of risk protections afforded since the introduction of cash market margin and will review liquid capital requirements in this context.
		d. Regulatory requirements, including Financial Stability Standards	See item 3c on today's agenda.



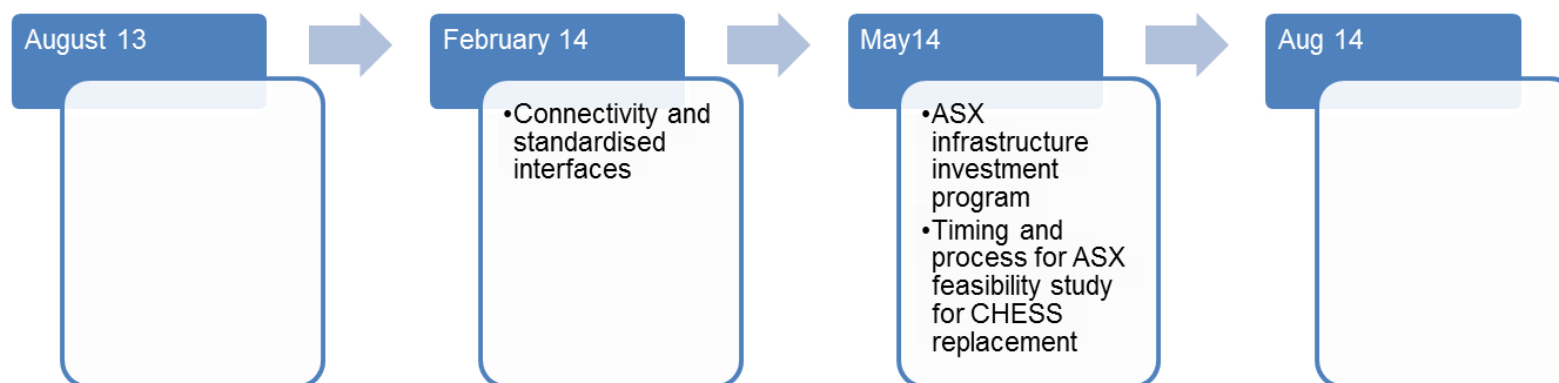
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>2. Participant Structure Flexibility &amp; Efficiency</b>	To align ASX's participant access regime with its customers' evolving business models	a. Participant structures, including shadow broking	See item 3a on today's agenda for a proposal relating to the introduction of Tiered Capital for General Clearing participants.  In future Committee meetings, ASX will present proposals on other Clearing Participant structures and seek feedback on potential benefits to customers in terms of capital costs, margin efficiencies, operating costs and transactional efficiency.
		b. Clearing only participant structures	ASX will present a proposal for the introduction of a clearing only General Participant status and seek feedback from the Committee on whether this may encourage greater flexibility in terms of outsourcing arrangements. In this review, ASX will consider HIN Sponsorship arrangements.
		c. Participant location requirements	ASX will provide an update on industry trends in terms of participant location in clearing and settlement and will seek feedback from the Committee on whether greater flexibility is required and could be supported under current legal and regulatory regimes and what domestic location requirements are necessary.
		d. Outsourcing structures	ASX will provide an update on industry trends in outsourcing arrangements and will seek feedback from the Committee on whether greater flexibility is required and could be supported under current risk, legal and regulatory regimes or whether formal requirements on outsourcing are necessary.
		e. Multiple third party clearing arrangements	ASX will highlight recent changes to Clearing Participant structures; provide updates on approvals and how these changes relate to third party clearing arrangements.



Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>3. Service Innovation</b>	To deliver global best practice cash market clearing and settlement services	a. Corporate action straight through processing	Existing project which will deliver a more streamlined process for the announcement, data capture and delivery (using ISO 20022) of corporate action information. The first phase – live by end of year – will include dividends, interest payments, capital returns and reorganisations.
		b. SWIFT messaging as an alternative to CHES proprietary messaging	See item 3b on today's agenda.
		c. International moves toward T+2 settlement cycle	T2S in Europe will move European equity settlement to T+2 while DTCC has consulted on moving US equity settlement to T+2 or even T+1. We would seek to explore what this might mean in the Australian context.
		d. Hosted solutions and offshoring arrangements	ASX will provide an update on industry trends towards Clearing & Settlement participant Hosted Solutions including offshoring arrangements and seek the Committee's feedback on to whether greater flexibility is required and could be supported under current risk, legal and regulatory regimes.
		e. ASX FY14 / 15 systems release program	ASX will provide a roadmap of the coming year's CHES release programme and seek the Committee's feedback on implementation considerations.



Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>4. Technology and Infrastructure Enhancement</b>	To maintain and upgrade technology and infrastructure consistent with global standards	a. ASX infrastructure investment program	ASX will provide a roadmap of its three year infrastructure investment program and seek the Committee's feedback on service innovation requirements and the market infrastructure considerations.
		b. Timing and process for ASX feasibility study for CHES replacement	ASX will provide a plan for the commencement of a CHES replacement feasibility study. A Technical Committee will need to be established in order to roadmap industry considerations and requirements.
		c. Connectivity and standardised interfaces	ASX will provide a connectivity and standardisation roadmap consistent with the findings of item 3b standardisation of messaging protocols (eg. FIX, ISO20022 etc)and further review connectivity options (eg. ASX Net, SWIFTNet etc)



**Post Council of Financial Regulators' review & policy decision on market structure in Q1 2015**

- International trends in multiple CCPs and access / infrastructure implications
- CHES investment FY15 / 16

# BUSINESS COMMITTEE AGENDA PAPER ITEM NO. 2013.01.3A

<b>TOPIC</b>	<b>PARTICIPANT STRUCTURES: TIERED CAPITAL FOR GENERAL PARTICIPANTS</b>
<b>DATE OF THE MEETING</b>	16 August 2013
<b>PURPOSE OF THIS PAPER</b>	To seek the Committee's feedback on a proposal for the introduction of tiered minimum Core Capital requirements for General Participants.
<b>PREPARED BY</b>	Danielle Henderson, General Manager, Clearing Services

---

## INTRODUCTION

The minimum Core Capital requirement for General Clearing Participants – otherwise known as third party clearers (TPC), is currently set at \$20 million in line with the RBA and ASIC's requirements for greater capital robustness of clearing participants post-GFC.

Since the implementation of these changes:

- there has been a shift in the third party clearing landscape, with certain participants exiting the market and a lack of provision of third party clearing for retail brokers; and,
- ASX Clear has introduced cash market margining which has strengthened its position in managing a potential default.

Third party clearing structures can be utilised by complex groups to solve entity and capital consolidation issues where Direct Clearing Participant structures can not be utilised. The use of a third party clearing structure maximises transaction and cash market margin efficiency through leveraging netting efficiencies.

The current minimum Core Capital requirement for General Clearing Participants of \$20 million has been identified by customers as a barrier to the use of TPC structures.

## PARTICIPANT STRUCTURE EFFECIENCY

ASX is giving consideration to consulting on the following changes to the minimum Core Capital requirement for General Clearing participants:

- Provision of limited General Clearing services for a maximum of one external client or non-wholly owned related entity: minimum Core Capital requirement of \$5 million (equivalent to that for a Direct Clearing member); and
- Provision of limited General Clearing services to transition to unrestricted TPC with that minimum Core Capital requirement being increased by \$5 million for each additional client up to a maximum of \$20 million.

ASX may also give considerations to a maximum period for transition or further risk measures for Limited General Clearing participants.

## NEXT STEPS

ASX would appreciate feedback from the Business Committee on the merits of the proposal and whether ASX should consult the industry (in the fourth quarter 2013).



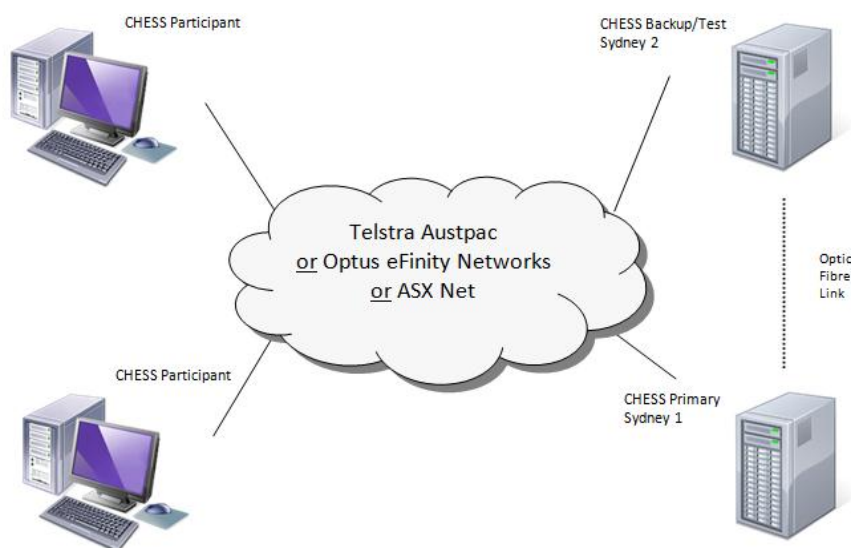
# BUSINESS COMMITTEE AGENDA PAPER ITEM NO. 2013.01.3B

<b>TOPIC</b>	<b>SERVICE INNOVATION: MESSAGING STANDARDS IN CHESS</b>
<b>DATE OF THE MEETING</b>	16 August 2013
<b>PURPOSE OF THIS PAPER</b>	To seek the Committee's feedback on a proposal for service innovation in the messaging standards used in CHESS
<b>PREPARED BY</b>	Andrew White, General Manager, Settlement Services

---

## INTRODUCTION

CHESS operates as a computer-to-computer system which relies on an electronic message exchange between the ASX's clearing and settlement system (CHESS) and customers' own systems over a communications network.



The message exchange between CHESS and its customers currently utilises a proprietary format. Although this format was developed following a review of communications standards in the finance industry at that time, and elements of those standards were used in the design of the CHESS message format – for example, the use of a bit map structure – this proprietary format does not follow any particular standard. Moreover, standards have of course evolved over the life of CHESS, for example with ISO 7775 – one of the inputs to the CHESS format – being replaced by ISO 15022 and now ISO 20022.

Nonetheless, the existing CHESS message format achieves its key objectives: it maximises efficiency in terms of system/communications capacity and cost by minimising the quantum of information sent; it is simple to validate and adaptable to change; and it ensures that each type of message is targeted such that it allows a specific business function to be carried out.

Because it meets its objectives, because of its computer-to-computer nature, and because this format has been used in the Australian market for almost twenty years, CHESS messaging is embodied in its customers' back office systems. As a result, ASX receives feedback from some of its customers – especially those that are primarily focused on the Australian domestic market – that they do not want ASX to change CHESS messaging since any change would involve cost on their side.

However, ASX is aware that for other customers, who operate across multiple markets worldwide – the fact that CHESSESS messaging is embodied in their back office system increases their costs in a different way: they either have to operate a separate back office system for the Australian market (one which understands the proprietary CHESSESS message format) or they need to use a message adapter/translator to modify that format into a more global standard. Some customers also note that changes to their back office systems to reflect changes made on the CHESSESS side can involve relatively substantial lead times and costs given the subject matter expertise necessary both within their organisations and the vendor community.

## **PROPOSED SERVICE INNOVATION**

Given the diversity of customer requirements on this topic, one possible solution would be to offer a choice of message format, where the alternative to CHESSESS proprietary messaging is an industry-accepted global protocol. This would potentially:

- Reduce costs for customers who either have to operate a separate back office system for the Australian market or need to use a message adapter/translator to modify that format into a more global standard;
- Better position ASX and its customers for changes to CHESSESS by decreasing the need for subject matter expertise and providing an alternative method of managing change; and,
- Better position ASX and its customers for the eventual replacement of the underlying CHESSESS technology since the underlying technology could potentially be swapped out without necessitating a change in messaging format.

ASX's initial thinking on the global protocol has been that it would utilise the ISO 20022 format, since this would be aligned with ASX's existing work in the corporate action space.

It should be noted that the global protocol can be independent of the network: ASX's initial thinking in this space is that CHESSESS could continue to be network agnostic, broadcasting messages in an agreed protocol but not limiting its customers to one network. To be clear on this last point, were, for example, SWIFTNet chosen as a network, this does not mean that SWIFTNet would be the only network over which customers could receive such messages; for example, ASX Net would continue to be offered as an alternative for ISO 20022 messages as well as CHESSESS proprietary messages. Again this is consistent with ASX's work in the corporate action space.

## **QUESTIONS FOR THE BUSINESS COMMITTEE**

ASX would appreciate feedback from the Business Committee on the following questions:

- Does the Business Committee agree that, given the potential benefits to some customers and in terms of a logical first step for other technical innovation in the CHESSESS space, ASX should offer choice of messaging format for CHESSESS?
- Does the Business Committee endorse this as a priority piece of work for ratification by the Forum?
- Of the alternative global protocols available (e.g. SWIFT/ISO 20022, FIX), which global protocol would the Business Committee see as the optimal alternative?

## **BUSINESS COMMITTEE AGENDA PAPER ITEM NO. 2013.01.3C**

<b>TOPIC</b>	<b>CAPITAL EFFICIENCY AND INDUSTRY ECONOMICS: FINANCIAL STABILITY STANDARDS</b>
<b>DATE OF THE MEETING</b>	16 August 2013
<b>PURPOSE OF THIS PAPER</b>	To brief the Committee on current consultation process on Financial Stability Standards Implementation for Cash Equity Markets. To highlight key dates for workshops and consultation dates.
<b>PREPARED BY</b>	Alan Bardwell, Chief Risk Officer

---

### **INTRODUCTION**

In December 2012 the Reserve Bank of Australia (RBA) released new Financial Stability Standards (FSS) for Financial Market Infrastructures.

The new FSS took effect on 29 March 2013. They apply to licensed clearing and settlement facilities, including ASX Clear and ASX Settlement.

ASX has received transitional relief until March 2014 for central counterparty (CCP) requirements for certain elements of the new standards relating to Segregation and Portability, and Liquidity Risk.

ASX released a consultation paper on 29 July 2013 and we are seeking stakeholder feedback on the consultation. A copy of the consultation paper can be found on this link; <http://www.asx.com.au/data/notices/asx-consultation-paper-financial-stability-standards-implementation.pdf>

### **KEY DATES AND NEXT STEPS**

ASX will be holding a presentation and Q&A session as part of this consultation;

Monday 26<sup>th</sup> August 2013  
Sydney, ASX Offices

RBA's Mark Manning, Deputy Head, Payments Policy Department, will be attending the Q&A sessions in Sydney.

ASX will also conduct a number of bilateral engagements with participants in Sydney, Melbourne, Perth and Brisbane.

Submissions are due by Wednesday 4<sup>th</sup> September. ASX encourages all cash equity market stakeholders to provide feedback on these important topics.