



AGENDA

Business Committee Meeting

Timing: Wednesday, 27 August 2014 commencing at 12.00pm

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

- 1. Introduction with lunch served on arrival** 12.00pm – 12.10pm

The Chair will update the Business Committee on the outcomes of the Forum meeting held on 23 June 2014 Forum.
- 2. Service Performance** 12.10pm – 12.20pm
 - a. Cash market clearing and settlement operational performance report
 - b. Verbal update on quarterly report on activity level and fees for individual participants
- 3. Management accounts for cash market clearing and settlement** 12.20pm – 12.35pm

Presentation of the management accounts for cash market clearing and settlement services for the year ended 30 June 2014.
- 4. Business Matters**
 - a. Roadmap for cash market post-trade services infrastructure 12.35pm – 12.55pm

The Business Committee will be provided with a high level roadmap for the development of cash market clearing and settlement services infrastructure.
 - b. Transitioning to a T+2 settlement cycle in Q1 2016 12.55pm – 1.15pm

The Business Committee will be updated on next steps in progressing consideration of the change to the batch settlement cut-off time, including further considerations for payments providers, the clearing house, participants and regulators.
 - c. Clearing participant structures – considerations for principal to principal clearing 1.15pm – 1.25pm

The Business Committee will be provided with an update on the preliminary considerations for the potential development of a principal-to-principal clearing model.
 - d. Guidance on outsourcing and offshoring 1.25pm – 1.40pm

The Business Committee will be provided with a verbal update on the development of a draft Guidance Note on Outsourcing and offshoring.
- 5. Regulatory Updates**
 - a. ASX Clear recovery plans 1.40pm – 1.55pm

The Business Committee will be provided with an outline of ASX Clear's proposed recovery plans and upcoming consultation.

- b. ASX Clear and European capital risk weightings 1.55pm – 2.05pm

The Business Committee will be provided with update on ASX Clear's preliminary considerations in relation to European capital risk weightings for participants.
- c. ASX Clear Operating Rules Update 2.05pm – 2.10pm

The Business Committee will be provided with a verbal update on amendments to the ASX Clear Operating Rules.
- 6. Administration** 2:10pm – 2:30pm
 - a. Forward work program

The Business Committee will be invited to review the items completed and discuss topics for inclusion in the forward work program for 2015.
 - b. Code of Practice review and proposed Business Committee meeting dates

The Business Committee will be updated on the review of the operation of the Code of Practice and the proposed meeting dates for Q4 2014 and 2015.
 - c. Minutes from the 7 May 2014 meeting
 - d. Other Matters

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
Bell Potter Securities	Mr Dean Surkitt	Managing Director Retail
BNP Paribas	Mr Justin Christopher	Chief Operating Officer
Chi-X Australia	Mr Jamie Crank	Head of Product
Citi	Mr Miles O'Connor	Director, Direct Custody & Clearing Securities & Funds Services
Commonwealth Bank of Australia	Mr Sheridan Thompson	Head of Strategic Development, CommSec
Deutsche Bank AG	Mr Russel Deal	Chief Operating Officer
Goldman Sachs	Mr Greg Hanlon	Head of Operations
HSBC	Mr Andrew Bastow	Head of Securities Services
J.P. Morgan (by telephone)	Mr Samuel Mann	Business Manager, Australia Equities
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Morgan Stanley	Mr Craig McGuire	Head of Operations
Patersons Securities (by telephone)	Mr Sam Budiselik	Chief Operating Officer
Pershing Securities	Mr Rob Forbes	Chief Operating Officer
Morgans	Ms Sue Gye	Manager Operations
UBS	Mr Conor Foley	Chief Operating Officer

ASX Management	
Name	Job Title
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 Janine Ryan	General Manager, Legal
Mr Marcin Firek	General Manager, Company Secretariat
Ms Diane Lewis	Senior Manager, Regulatory and Public Policy
Mr Rodd Kingham	Senior Manager, Clearing Services
Mr Brad McCosker	Senior Adviser, Clearing Risk Policy

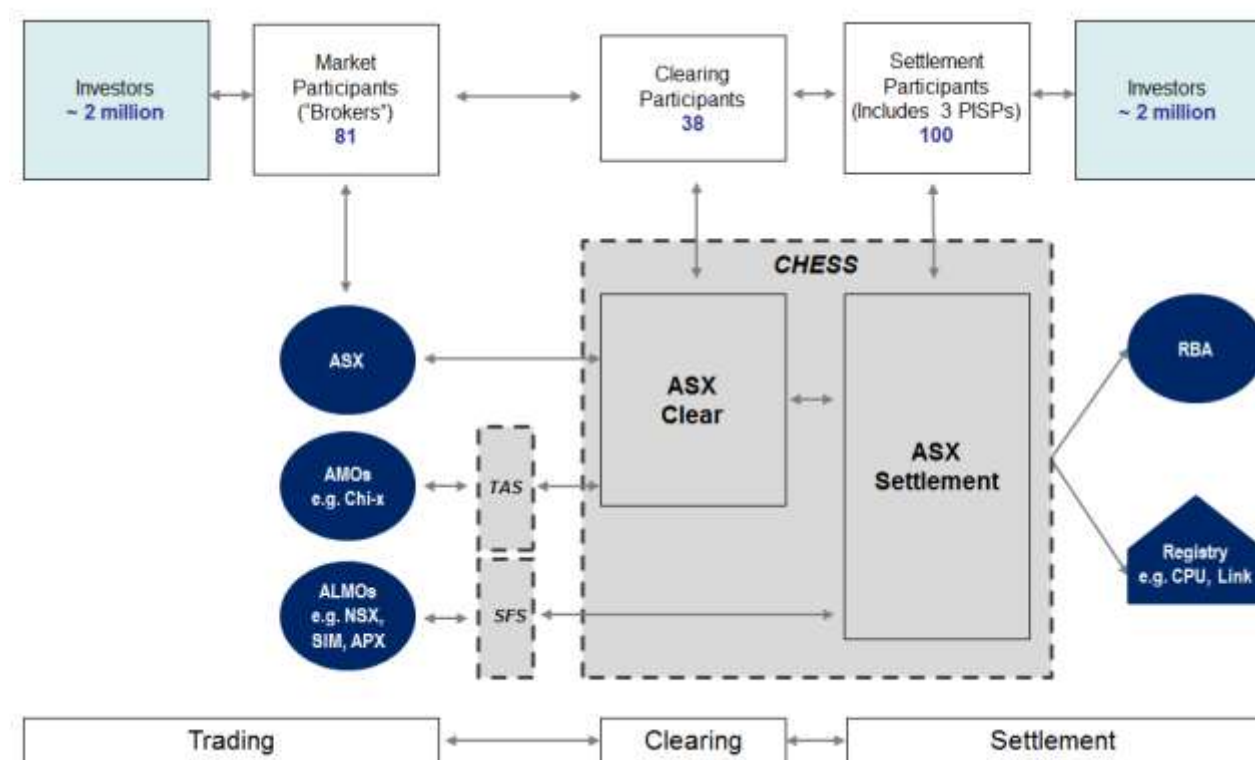
APOLOGIES

MEMBERS		
Company	Name	Job Title
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
Morgans	Mr Peter Chisholm	Chief Operating Officer
NSX	Mr Emlyn Scott	Chief Executive Officer

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 2A

Topic	Cash Market Clearing and Settlement Services Operational Performance Report
Date of the Meeting	27 August 2014
Purpose of this paper	To report on key performance metrics for ASX's clearing and settlement services.
Action required	To note the agenda paper.

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 provide these benefits include novation, netting and settlement.

Novation

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.

Prior to novation, CORE (for ASX) and the Trade Acceptance Service (for AMOs – other trade execution venues) 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. Once a trade is registered it is novated. Novation is deemed to have occurred at the point of trade for all trade execution venues.

Netting

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

Settlement

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

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. The service availability target for CHES is 99.80%.

For the June 2014 quarter, the average monthly system availability was 100% for CHES. The average monthly availability of CHES has been 99.99% between November 2011 and June 2014.

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 Trade Acceptance Service availability target for TAS is 99.80% (the same as CHES).

For the June 2014 quarter the average monthly system availability was 100% for the TAS. The average monthly availability of the TAS has been 99.99% between November 2011 and June 2014 (which is the same as CHES).

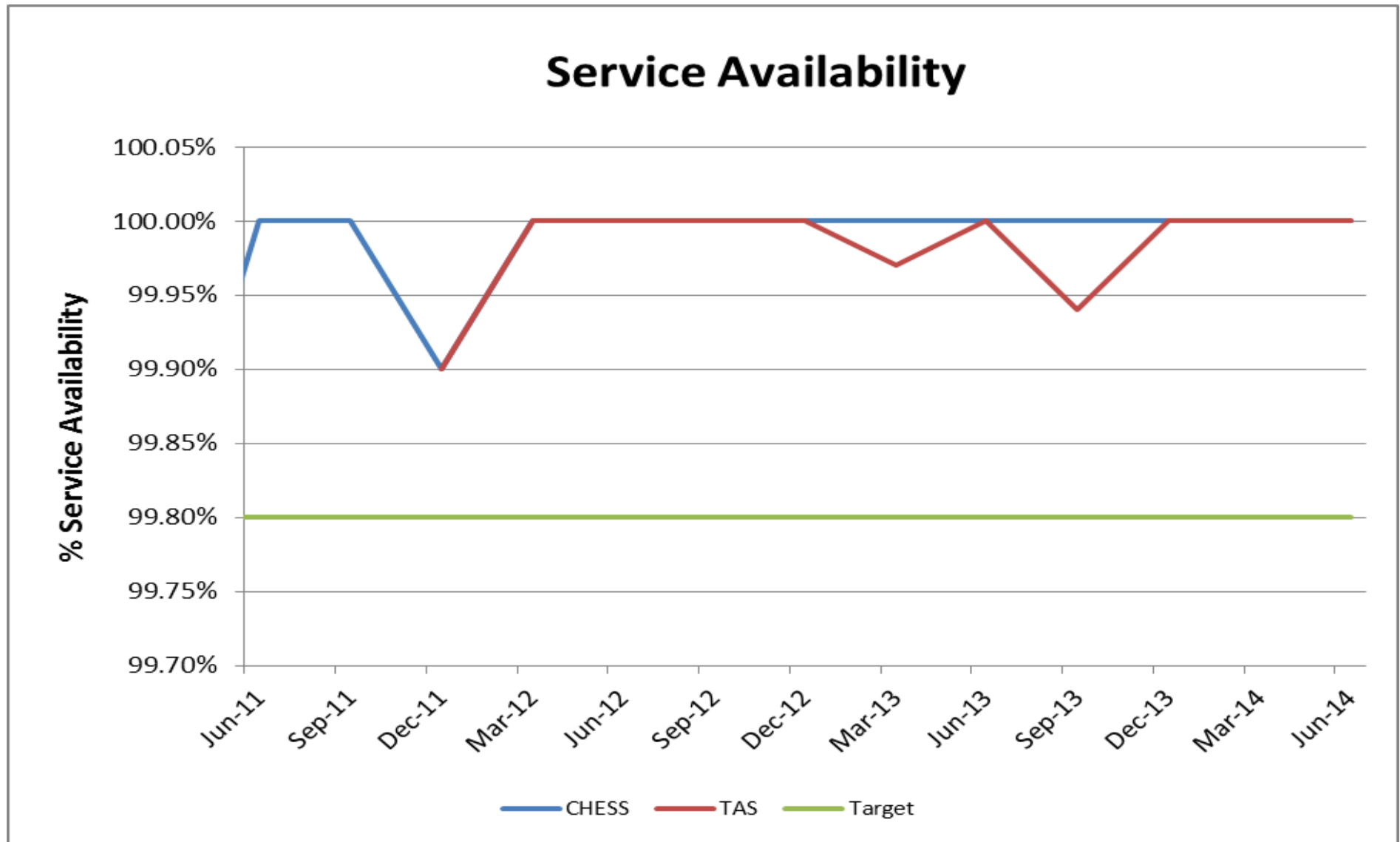
REPORTING ON CLEARING AND SETTLEMENT SERVICE PERFORMANCE

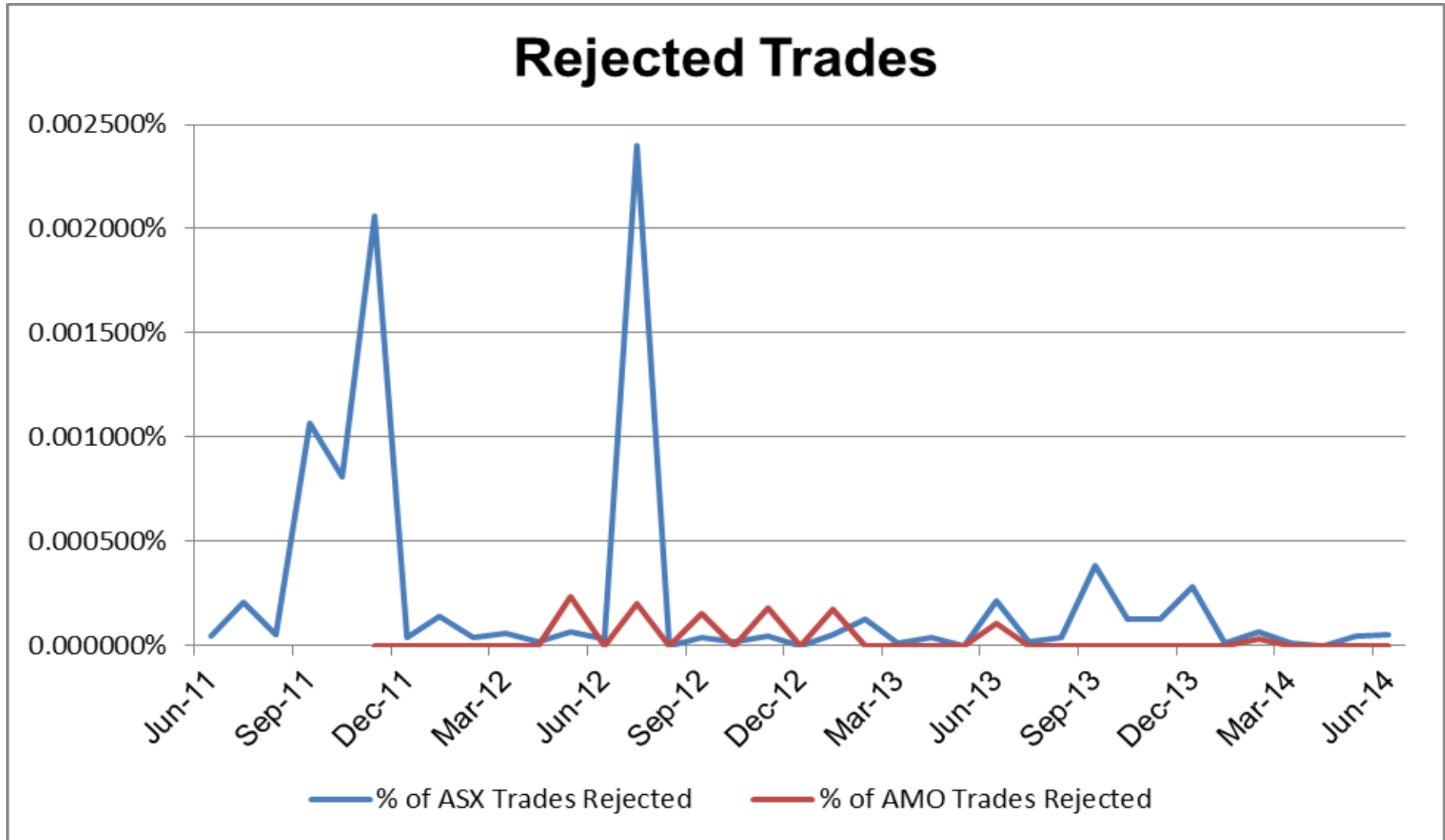
The key metrics noted above on novation, netting efficiency and settlement efficiency for the current June 2014 and March 2014 quarter are reported in Attachment A. They are also supported by charts demonstrating a longer reporting period in Attachment B.

ATTACHMENT A – SUMMARY METRICS RELATING TO THE PERFORMANCE OF ASX'S CLEARING AND SETTLEMENT SERVICES

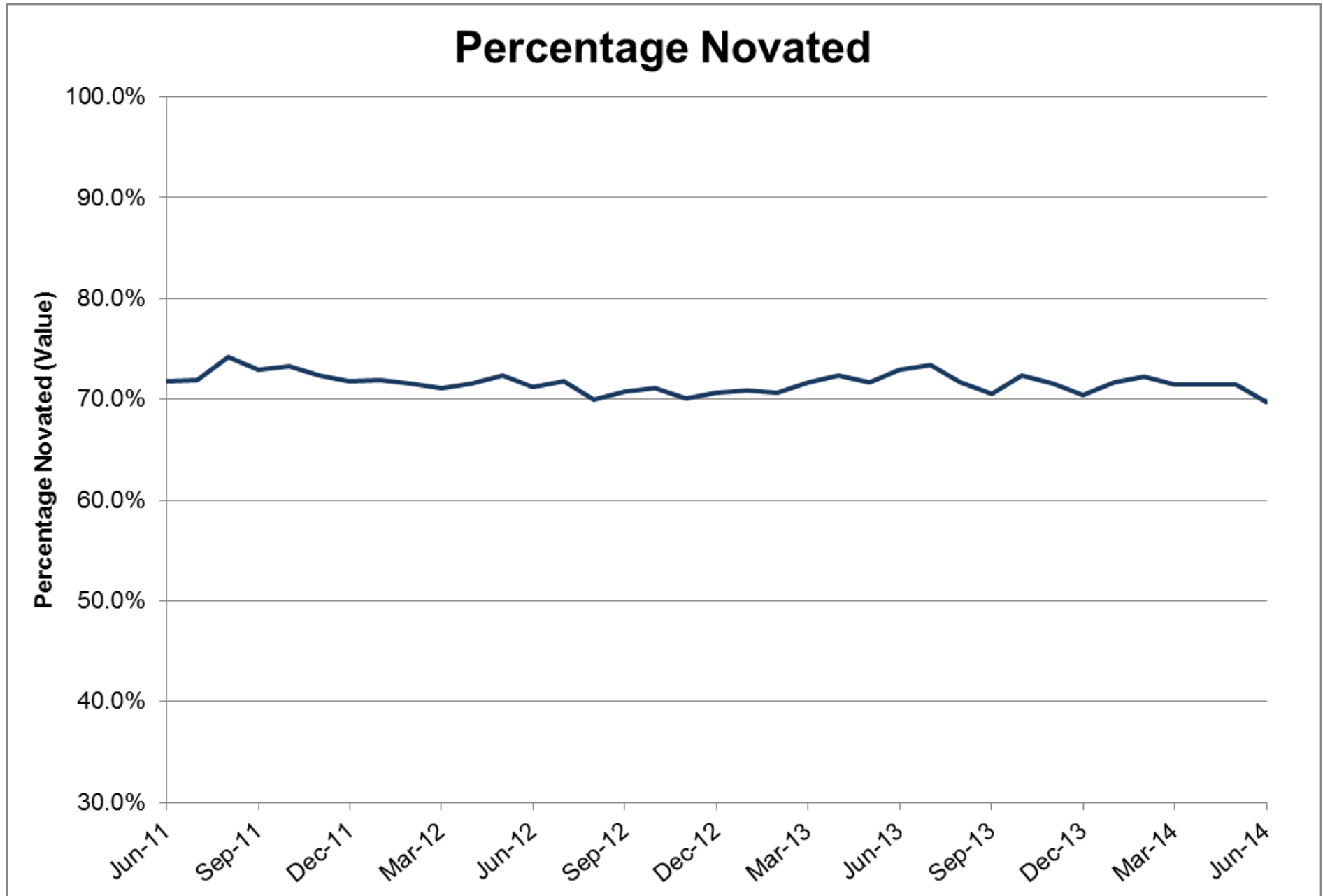
	June 2014 Quarter	March 2014 Quarter
System Availability (CHES)	100%	100%
System Availability (TAS)	100%	100%
Total Trades Accepted (ASX)	42,524,960	46,770,262
Total Trades Accepted (Chi-X)	10,733,461	9,979,893
Total Trades Rejected (ASX)	25	15
Total Trades Rejected (Chi-X)	0	1
Daily Average Traded Value (On and Off Market)	\$4.9 billion	\$5.0 billion
Daily Average Cleared Value	\$3.5 billion	\$3.6 billion
Percentage Novated	70.9%	71.8%
Daily Average Cleared Value Post-Netting	\$1.4 billion	\$1.4 billion
Netting Efficiency	58.9%	60.7%
Daily Average Settled Value (Including Non-Novated)	\$7.7 billion	\$7.7 billion
Settlement Efficiency	99.9%	99.9%

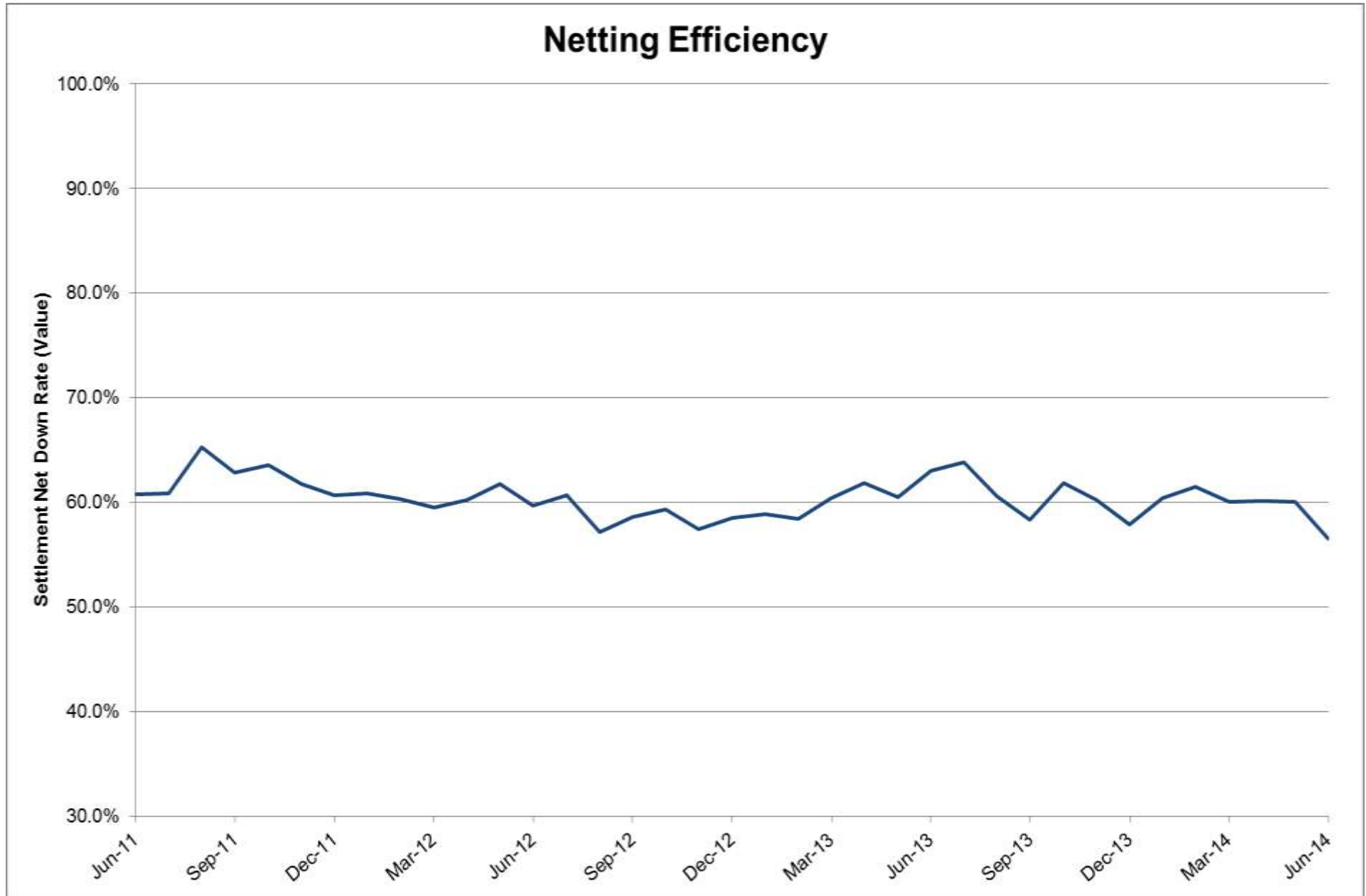
ATTACHMENT B – PERFORMANCE OF ASX’S CLEARING AND SETTLEMENT SERVICES FROM JUNE 2011 TO JUNE 2014

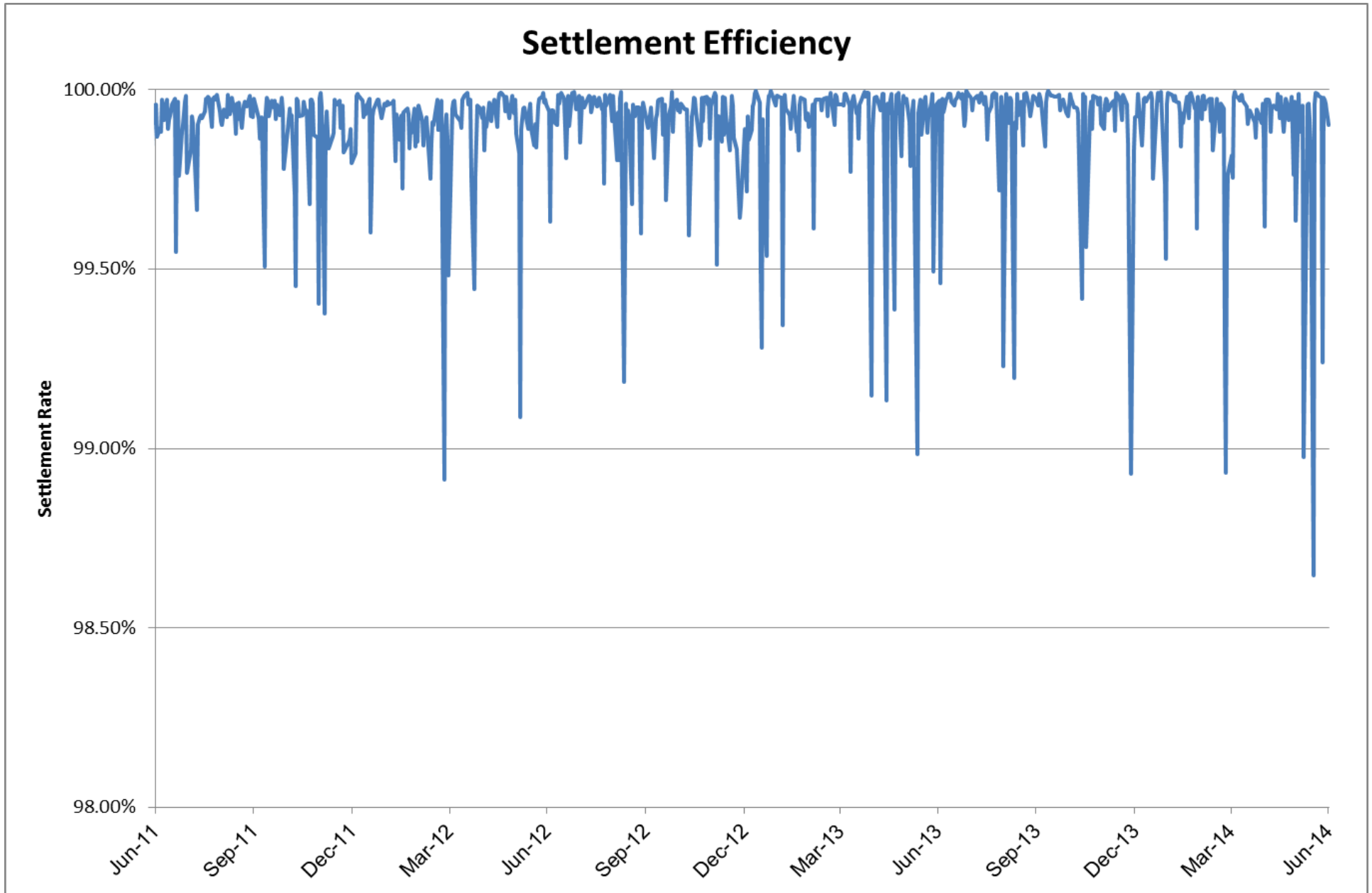




NB this chart excludes rejections caused by two one-off incidents: on 6 December 2011, 778 AMO trades were rejected due to a technical issue; and on 3 May 2013, 2202 ASX trades were rejected due to a participant issue.







BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 3

Topic	Management Accounts
Date of the Meeting	27 August 2014
Purpose of this paper	To inform Business Committee members of the cash market clearing and settlement management income statements for the year ended 30 June 2014.
Action required	To note the agenda paper.

On 21 August 2014, ASX published, together with ASX Limited FY14 Financial Results, cash market clearing and settlement management income statements for the year ended 30 June 2014.

Both management income statements have been prepared as special purpose financial statements based on management information provided in accordance with the commitment ASX made in the Code of Practice and ASX's internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia. These management income statements have been audited by PwC, which has provided an Auditor Independence Declaration in accordance with the Corporations Act requirements.

The ASX internal cost allocation and transfer pricing policy is available on the [ASX website](#).

The cash market clearing and settlement management income statements for the year ended 30 June 2014, including supporting accounting policy notes and the independent auditors report, are provided in Attachments A and B.

CASH MARKET CLEARING

The cash market clearing management income statement reflects a profit after tax of \$26.0 million, an economic profit after capital charge of \$3.7 million and a return on equity of 11.7%.

Total capital allocated to cash market clearing is \$221.3 million. It comprises default capital, operational capital and invested capital representing the value of fixed assets and intangibles supporting this activity.

The management accounts do not include clearing of equity options.

CASH MARKET SETTLEMENT

The cash market settlement management income statement reflects a profit after tax of \$23.8 million, an economic profit after capital charge of \$9.6 million and a return on equity of 17.5%.

Total capital allocated to cash market settlement is \$135.8 million. This comprises business / operational risk capital and invested capital.

Attachments

Attachment A – Cash Market Clearing Management Income Statement
Attachment B – Cash Market Settlement Management Income Statement

**CASH MARKET
CLEARING
MANAGEMENT INCOME
STATEMENT
FOR THE YEAR ENDED
30 JUNE 2014**

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Management Income Statement – Cash Market Clearing

	FY14 \$ Million	FY13 \$ Million
Revenue		
Cash market clearing	43.5	42.7
Revenue sharing rebate	(0.4)	(1.1)
Trade acceptance service	-	0.6
Participation fees	0.1	0.1
Technical services	0.3	0.2
Operating revenue	43.5	42.5
Expenses		
Staff	6.7	6.8
Equipment	1.6	1.2
Occupancy	1.0	1.1
Administration	1.2	1.0
Operating expenses	10.5	10.1
EBITDA	33.0	32.4
Depreciation and amortisation	1.8	1.5
EBIT	31.2	30.9
Net interest income	5.9	6.1
Total net interest income	5.9	6.1
Profit before tax	37.1	37.0
Tax expense	(11.1)	(11.1)
Profit after tax	26.0	25.9
Capital charge	(22.3)	(22.5)
Economic profit after capital charge	3.7	3.4
EBITDA margin	76.0%	76.2%
Total Capital	221.3	221.1
Return on capital	11.7%	11.7%

Notes to the Management Income Statement

Summary of significant accounting policies

These statements are the management income statements for the ASX cash market clearing activities. They have been prepared following the commitment made in the Code of Practice for Clearing and Settlement of Cash Equities in Australia released by ASX on 18 July 2013.

These management statements were authorised for release by the Board of Directors of ASX Clear Pty Limited on 21 August 2014.

Basis of preparation

These special purpose management statements have been prepared on the basis of the Code of Practice for Clearing and Settlement of Cash Equities in Australia and the associated ASX internal cost allocation and transfer policy between ASX Group entities for clearing and settlement of cash equities in Australia. As these are based on management information they do not comply with Australian Accounting standards.

The accounting policies adopted in the preparation of these statements are outlined below.

Revenue recognition

Consistent with the ASX financial statements, revenue is recognised when it is probable that the economic benefits will flow to these activities and the revenue can be reliably measured. Revenue recognition policies have been consistently applied in each financial year. The specific allocation of revenues is described below.

Cash market clearing represents fees earned for the clearing of cash market trades transacted on ASX and other venues. Cash market trades include equities, interest rates, warrants and exchange traded funds. Fees are based on a basis point charge on the value of the transaction. These fees are accounted for at settlement date.

Revenue sharing rebate represents the amount of cash market clearing fees rebated to clearing participants. In FY14 the amount of the rebate represents 50% of the growth in revenue (pre-rebate) from cash market clearing for the twelve months ended 30 June 2014 over the prior comparable period. For FY13 the rebate was effective from 1 January 2013.

Trade acceptance service represents the annual fee charged to each operator of a licensed market for submitting trades into ASX Clear Pty Limited. The fee is recognised in the period earned. The fee was discontinued from the commencement of the Code of Practice (August 2013).

Participant fees represent annual and initial fees paid by clearing participants for membership in ASX Clear Pty Limited. Fees are recognised in the period earned.

Technical services represents fees paid for technology connectivity to the ASX clearing and settlement platform. Fees paid to access the CHES platform have been allocated between cash market clearing and cash market settlement on an equivalent basis.

Notes to the Management Income Statement (continued)

Expense allocations

Operating expenses have been attributed to cash market clearing based on the ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia. Costs have been attributed as either direct costs being those that can be directly attributable to the activities specifically undertaken within cash market clearing and indirect or common costs. Indirect costs are those costs incurred that are not directly attributable to activities within cash market clearing but are undertaken to indirectly support these activities. Attributions of costs have been performed at the individual cost centre for the different divisions within the ASX Group of companies.

The attribution of direct and indirect costs by expense categories are described below. The attribution has been consistently applied in each financial year. The cost allocation and transfer pricing policy is available on the ASX website.

Staff costs

Direct staff costs have been attributed based on an analysis by division within ASX of the amount of time involved in direct cash market clearing activities. In some divisions this has resulted in an attribution based on the number of full time equivalent staff costed at actual staff cost for different functions. In other divisions the allocation has been based on the percentage of time on average spent by staff performing cash market clearing activities.

Indirect staff costs have been attributed in two ways: For divisions where the indirect or common activities cannot be specifically identified to cash market clearing, their costs have been allocated on the same percentage as total direct staff costs for all other divisions. For divisions where activities can be estimated based on analysis of functions performed, they have received a percentage allocation on that basis. These estimates are based on various activity drivers which differ among the different divisions.

Equipment costs

Direct equipment costs have been allocated on the basis of specific expenditure incurred on technology platforms supporting the cash market clearing activities. Where technology is shared with other activities, such as the cash market clearing and settlement platform, the allocation has been based on an estimate of the functionality related to each activity.

Indirect equipment costs, being those costs that support technology platforms that provide common services to many business activities, have been allocated on the same basis as total direct staff costs, as this is considered the most appropriate driver.

Occupancy costs

Occupancy costs have been allocated on the basis of direct and indirect staff costs attributed to cash market clearing, as the overall staff costs reflect the appropriate allocation of premises.

Notes to the Management Income Statement (continued)

Administration costs

All administration costs have been attributed as indirect costs, as there are no specifically identifiable costs in this category for cash market clearing. Administration costs are common across many business units and include items such as stationery, travel, insurances and marketing. As these costs are common to and support many activities, they have been allocated on the basis of indirect staff costs. This is considered to be the most appropriate driver of the majority of this expenditure.

Interest income

Interest income reflects the investment earnings on the capital attributed to cash market clearing and the investment earnings from participant collateral lodged under cash market margining. Clearing participants receive the official cash rate on balances lodged to support cash market positions. An interest charge has been applied on the difference between the liquidity requirement for cash market clearing and the default risk capital attributed, based on market interest rates for similar facilities. Interest income is recognised on an accrual basis.

Capital

The capital attribution to cash market clearing includes, default risk capital and operational risk capital supporting the clearing activities, as well as invested capital in the technology infrastructure.

The default risk capital attribution is based on the potential stress loss scenarios applicable to cash market clearing that are adopted in ASX's risk management framework. These allocate stress losses between cash equities and derivatives.

Operational risk capital represents the amount of capital required for operational risk under the Financial Stability Standards.

Invested capital represents the cost of infrastructure supporting the cash market clearing activities. Where technology infrastructure is shared with other activities, the allocation is on the same basis as that adopted in the allocation of equipment costs.

The capital charge in the management income statement reflects ASX's cost of capital applied to the capital attributed to cash market clearing.

The capital attribution methodology has been consistently applied in each financial year.

Tax

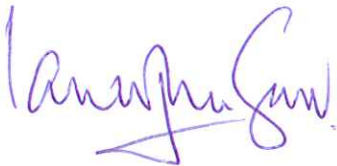
Tax expense represents a charge based on the applicable income tax rate.

Directors' declaration

In the opinion of the directors of ASX Clear Pty Limited:

- The management income statements and notes that are contained in pages 3 to 6 are in accordance with the Code of Practice for Clearing and Settlement of Cash Equities in Australia released by ASX on 18 July 2013, including
 - (i) Presenting fairly the management information for the cash market clearing activities of ASX Clear Pty Limited, and
 - (ii) Complying with the ASX internal cost allocation and transfer policy between ASX group entities for clearing and settlement of cash equities in Australia.

Signed in accordance with a resolution of directors.



Ian McGaw
Chairman
ASX Clear Pty Limited

Sydney, 21 August 2014



Independent auditor's report to the directors of ASX Clear Pty Limited

We have audited the accompanying Management Income Statement for the cash market clearing activities of ASX Clear Pty Limited (the Company), which comprises the Management Income Statement and a summary of significant accounting policies for the year ended 30 June 2014.

Directors' responsibility for the management statements

The directors of the Company are responsible for the preparation of the Management Income Statement and have determined that the basis of preparation described in the summary of significant accounting policies to the management income statement is appropriate to meet the requirements of the Code of Practice for Clearing and Settlement of Cash Equities in Australia which became operational on the 9 August 2013 and complies with the ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia published on the 22 August 2013.

The directors' of the company responsibility also includes such internal control as the directors of the company determine is necessary to enable the preparation of the Management Income Statement that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the Management Income Statement based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the Management Income Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Management Income Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Management Income Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Management Income Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by directors of the company, as well as evaluating the overall presentation of the Management Income Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Auditor's opinion

In our opinion, the Management Income Statement presents fairly, in all material respects, the results of the cash market clearing activities of ASX Clear Pty Limited for the year ended 30 June 2014 in accordance with the accounting policies described in the summary of significant accounting policies to the Management Income Statement.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to the summary of significant accounting policies to the Management Income Statement, which describe the basis of accounting. The Management Income Statement has been prepared to assist ASX Clear Pty Limited to meet the financial reporting requirements of the Code of Practice for Clearing and Settlement of Cash Equities in Australia which became operational on the 9 August 2013 and complies with the ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia published on the 22 August 2013. As a result, the Management Income Statement may not be suitable for another purpose. No opinion is expressed as to whether the basis on which the underlying Management Income Statement is prepared is appropriate to the needs of the users.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'M Lunn', written over a horizontal line.

Matthew Lunn
Partner

Sydney
21 August 2014

CASH MARKET

SETTLEMENT

MANAGEMENT INCOME

STATEMENT

FOR THE YEAR ENDED

30 JUNE 2014

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Management Income Statement – Cash Market Settlement

	FY14 \$ Million	FY13 \$ Million
Revenue		
Cash market settlement	41.3	40.9
Revenue sharing rebate	(0.2)	(0.7)
Settlement access fees	0.1	0.1
Participation fees	0.4	0.4
Settlement fail fees	1.4	1.6
Technical services	0.5	0.5
Operating Revenue	43.5	42.8
Expenses		
Staff	7.4	7.8
Equipment	2.0	1.8
Occupancy	1.2	1.2
Administration	1.5	1.5
Operating expenses	12.1	12.3
EBITDA	31.4	30.5
Depreciation and amortisation	0.2	0.2
EBIT	31.3	30.3
Net interest income	2.8	3.0
Total net interest income	2.8	3.0
Profit before tax	34.0	33.3
Tax expense	(10.2)	(10.0)
Profit after tax	23.8	23.3
Capital charge	(14.2)	(13.6)
Economic profit after capital charge	9.6	9.7
EBITDA margin	72.3%	71.2%
Total Capital	135.8	130.4
Return on capital	17.5%	17.8%

Notes to the Management Income Statement

Summary of significant accounting policies

These statements are the management income statements for the ASX cash market settlement activities. They have been prepared following the commitment made in the Code of Practice for Clearing and Settlement of Cash Equities in Australia released by ASX on 18 July 2013.

These management statements were authorised for release by the Board of Directors of ASX Settlement Pty Limited on 21 August 2014.

Basis of preparation

These special purpose management statements have been prepared on the basis of the Code of Practice for Clearing and Settlement of Cash Equities in Australia and the associated ASX internal cost allocation and transfer policy between ASX Group entities for clearing and settlement of cash equities in Australia. As these are based on management information they do not comply with Australian Accounting standards.

The accounting policies adopted in the preparation of these statements are outlined below.

Revenue recognition

Consistent with the ASX financial statements, revenue is recognised when it is probable that the economic benefits will flow to these activities and the revenue can be reliably measured. Revenue recognition policies have been consistently applied in each financial year. The specific allocation of revenues is described below.

Cash market settlement represents fees earned for the settlement of cash market trades transacted on ASX and other venues. Cash market trades include equities, interest rates, warrants and exchange traded funds. Fees are based on a fixed charge on the number of messages. These fees are accounted for at settlement date.

Revenue sharing rebate represents the amount of cash market settlement fees rebated to settlement participants. In FY14 the amount of the rebate represents 50% of the growth in revenue (pre-rebate) from cash market settlement for the twelve months ended 30 June 2014 over the prior comparable period. For FY13 the rebate was effective from 1 January 2013.

Participant fees represent annual and initial fees paid by settlement participants for membership in ASX Settlement Pty Limited. Fees are recognised in the period earned.

Technical services represents fees paid for technology connectivity to the ASX clearing and settlement platform. Fees paid to access the CHES platform have been allocated between cash market clearing and cash market settlement on an equivalent basis.

Notes to the Management Income Statement (continued)

Expense allocations

Operating expenses have been attributed to cash market settlement based on the ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia. Costs have been attributed as either direct costs being those that can be directly attributable to the activities specifically undertaken within cash market settlement and indirect or common costs. Indirect costs are those costs incurred that are not directly attributable to activities within cash market settlement but are undertaken to indirectly support these activities. Attributions of costs have been performed at the individual cost centre for the different divisions within the ASX Group of companies.

The attribution of direct and indirect costs by expense categories are described below. The attribution has been consistently applied in each financial year. The cost allocation and transfer pricing policy is available on the ASX website.

Staff costs

Direct staff costs have been attributed based on an analysis by division within ASX of the amount of time involved in direct cash market settlement activities. In some divisions this has resulted in an attribution based on the number of full time equivalent staff costed at actual staff cost for different functions. In other divisions the allocation has been based on the percentage of time on average spent by staff performing cash market settlement activities.

Indirect staff costs have been attributed in two ways: For divisions where the indirect or common activities cannot be specifically identified to cash market settlement, their costs have been allocated on the same percentage as total direct staff costs for all other divisions. For divisions where activities can be estimated based on analysis of functions performed they have received a percentage allocation on that basis. These estimates are based on various activity drivers which differ among the different divisions.

Equipment costs

Direct equipment costs have been allocated on the basis of specific expenditure incurred on technology platforms supporting the cash market settlement activities. Where technology is shared with other activities, such as the cash market clearing and settlement platform, the allocation has been based on an estimate of the functionality related to each activity.

Indirect equipment costs, being those costs that support technology platforms that provide common services to many business activities have been allocated on the same basis as total direct staff costs, as this is considered the most appropriate driver.

Occupancy costs

Occupancy costs have been allocated on the basis of direct and indirect staff costs attributed to cash market settlement, as the overall staff costs reflect the appropriate allocation of premises.

Notes to the Management Income Statement (continued)

Administration costs

All administration costs have been attributed as indirect costs as there are no specifically identifiable costs in this category for cash market settlement. Administration costs are common across many business units and include items such as stationery, travel, insurances and marketing. As these costs are common to and support many activities, they have been allocated on the basis of indirect staff costs. This is considered to be the most appropriate driver of the majority of this expenditure.

Interest income

Interest income reflects the investment earnings on the capital attributed to cash market settlement. Interest income is recognised on an accrual basis.

Capital

The capital attribution to cash market settlement includes, operational risk capital supporting the settlement activities, as well as invested capital in the technology infrastructure.

Operational risk capital represents the amount of capital required and made available for operational risk as assessed by the Board having regard to global benchmarks.

Invested capital represents the cost of infrastructure supporting the cash market settlement activities. Where technology infrastructure is shared with other activities, the allocation is on the same basis as that adopted in the allocation of equipment costs.

The capital charge in the management income statement reflects ASX's cost of capital applied to the capital attributed to cash market settlement.

The capital attribution methodology has been consistently applied in each financial year.

Tax

Tax expense represents a charge based on the applicable income tax rate.

Directors' declaration

In the opinion of the directors of ASX Settlement Pty Limited:

- The management income statements and notes that are contained in pages 3 to 6 are in accordance with the Code of Practice for Clearing and Settlement of Cash Equities in Australia released by ASX on 18 July 2013, including
 - (iii) Presenting fairly the management information for the cash market settlement activities of ASX Settlement Pty Limited, and
 - (iv) Complying with the ASX internal cost allocation and transfer policy between ASX group entities for clearing and settlement of cash equities in Australia.

Signed in accordance with a resolution of directors.



Ian McGaw
Chairman
ASX Settlement Pty Limited

Sydney, 21 August 2014



Independent auditor's report to the directors of ASX Settlement Pty Limited

We have audited the accompanying Management Income Statement for the cash market settlement activities of ASX Settlement Pty Limited (the Company), which comprises the Management Income Statement and a summary of significant accounting policies for the year ended 30 June 2014.

Directors' responsibility for the management statements

The directors of the Company are responsible for the preparation of the Management Income Statement and have determined that the basis of preparation described in the summary of significant accounting policies to the management income statement is appropriate to meet the requirements of the Code of Practice for Clearing and Settlement of Cash Equities in Australia which became operational on the 9 August 2013 and complies with the ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia published on the 22 August 2013.

The directors' of the company responsibility also includes such internal control as the directors of the company determine is necessary to enable the preparation of the Management Income Statement that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the Management Income Statement based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the Management Income Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Management Income Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Management Income Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Management Income Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by directors of the company, as well as evaluating the overall presentation of the Management Income Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Auditor's opinion

In our opinion, the Management Income Statement presents fairly, in all material respects, the results of the cash market settlement activities of ASX Settlement Pty Limited for the year ended 30 June 2014 in accordance with the accounting policies described in the summary of significant accounting policies to the Management Income Statement.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to the summary of significant accounting policies to the Management Income Statement, which describe the basis of accounting. The Management Income Statement has been prepared to assist ASX Settlement Pty Limited to meet the financial reporting requirements of the Code of Practice for Clearing and Settlement of Cash Equities in Australia which became operational on the 9 August 2013 and complies with the ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia published on the 22 August 2013. As a result, the Management Income Statement may not be suitable for another purpose. No opinion is expressed as to whether the basis on which the underlying Management Income Statement is prepared is appropriate to the needs of the users.

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A handwritten signature in blue ink, appearing to read 'M Lunn', written over a horizontal line.

Matthew Lunn
Partner

Sydney
21 August 2014

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4A

Topic	Roadmap for Cash Market Post-Trade Services Infrastructure
Date of the Meeting	27 August 2014
Purpose of this paper	To provide the Business Committee with a high level roadmap for the development of ASX's cash market clearing and settlement services infrastructure.
Action required	The Business Committee is invited to provide feedback on the roadmap.

ROADMAP FOR THE DEVELOPMENT OF ASX'S CLEARING AND SETTLEMENT SERVICES INFRASTRUCTURE

This paper presents a draft roadmap, which is provided in Attachment A, for the development of ASX's clearing and settlement services infrastructure. The roadmap includes confirmed service releases and core infrastructure development.

Confirmed service releases are undertaken twice a year, which has been agreed with stakeholders including ASIC and clearing participants. The confirmed service releases through to July 2016 set out in the draft roadmap include items which have been considered and prioritised by the Business Committee, the Forum and approved by ASX's Clearing and Settlement Boards:

- the introduction of a T+2 settlement cycle;
- enhanced customer protections to implement the Financial Stability Standards, and
- TAS-related changes.

The confirmed service releases also include items which are outside the Code of Practice, including ASX Collateral for equities, a FATCA solution for mFund and releases which ensure that ASX's clearing and settlement services remain contemporary (such as a change to CHES's ISIN algorithm).

The replacement of CHES is anticipated in the roadmap as a core infrastructure development.

In preparing the roadmap, consideration was given to whether there are additional releases which should be incorporated prior to the commencement of the CHES replacement project (and thus delay the commencement of this project). Such releases could potentially relate to other items which have been considered by the Business Committee, but which have not yet been recommended or prioritised by the Business Committee and the Forum, or approved by the ASX Clear and Settlement Boards. Examples of these initiatives include the second phase of the Corporate Actions STP initiative and the potential development of a principal-to-principal clearing model.

The roadmap has been prepared on the basis that the CHES replacement project is commenced in the next 6 months and is not delayed to incorporate additional releases. Any other initiatives prioritised by industry requiring a CHES release could be incorporated in the CHES replacement project and, as such, avoid duplicate development work that would be required if it were released prior to CHES replacement. The lock-down on new CHES development and the commencement date for CHES replacement are key decisions that will be discussed with the Business Committee and Forum before the CHES replacement project is launched.

If CHES replacement is started in Q4 2014, it could potentially be completed by the second half of 2017.

The Business Committee is asked to provide its feedback on the draft roadmap for the development of ASX's clearing and settlement services infrastructure, and specifically to provide guidance as to whether completing CHES

replacement in 2017 or 2018 would be preferable. In considering this, the Committee should take the following into account:

- any system which replaces CHESSE will be compliant with international message standards (specifically ISO 20022) and will therefore provide for native straight-through-processing of those messages, including those relating to corporate actions; and
- similarly, given CHESSE will not (as per the Technical Committee's recommendation) be replaced with a like-to-like system, any work done to establish the principal-to-principal clearing model prior to CHESSE replacement would likely be subject to re-work at the time of CHESSE replacement. An additional consideration is that the rules and regulatory framework changes to support this model are not expected to be realised in the near term and will likely cause a delay in the system changes.

Should the Business Committee agree that work on CHESSE replacement should start in Q4 2014, ASX would begin this work by conducting a principles-based consultation on CHESSE replacement later in the year. The consultation would seek feedback on whether:

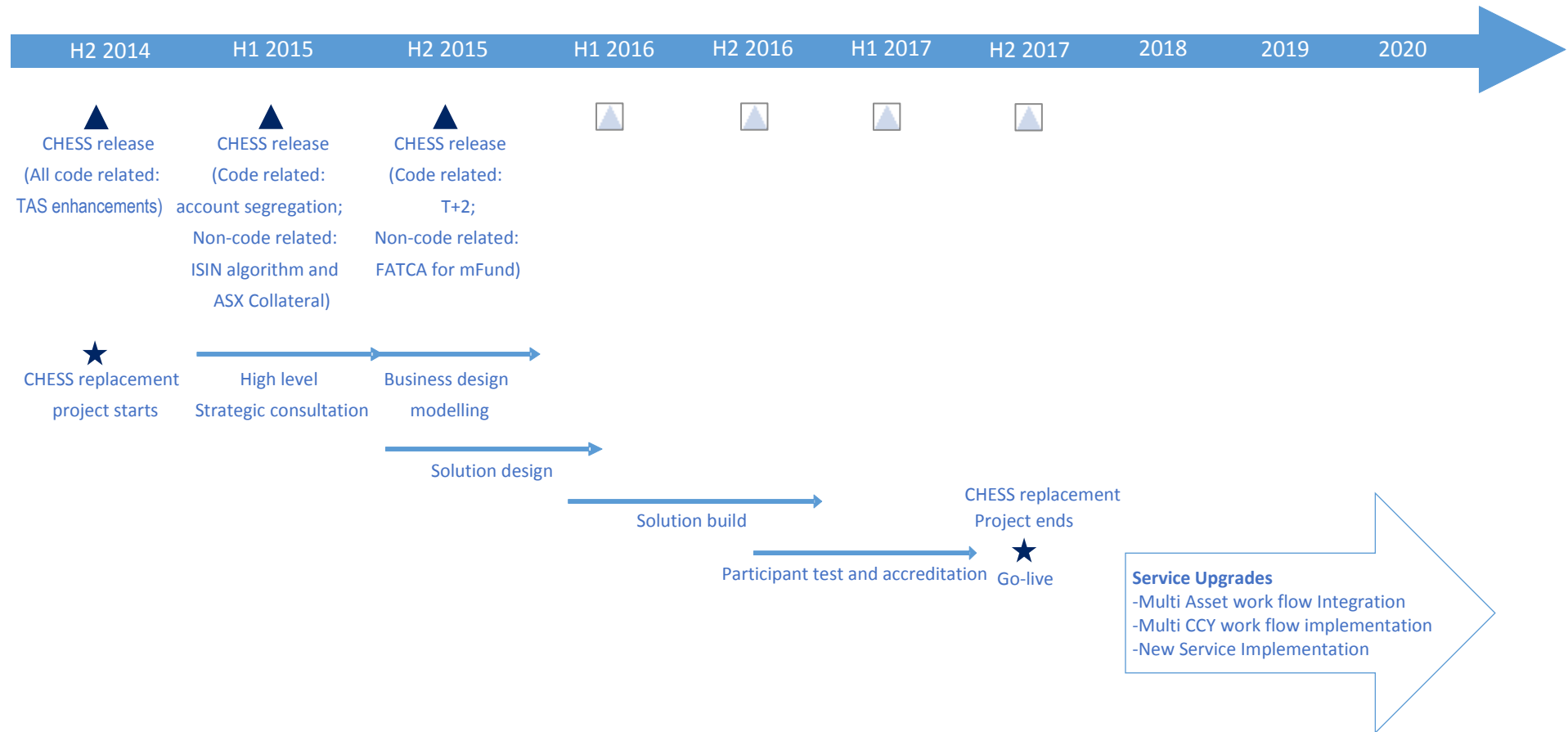
- the system replacing CHESSE should maintain the "name on register" principle;
- it should (unlike CHESSE) have standard Central Securities Depository functionality (including accrual-based asset servicing);
- it should have international standard messaging interfaces;
- it should have multi-asset class capability;
- it should have multi-currency capability;
- it should have multi-market operator capability (and, subject to a decision by the Government on clearing competition, multi-CCP capability);
- its operating hours and availability should be identical to CHESSE currently;
- its settlement model should be model 3 (as it is currently) or should it be a model 1; and,
- it should (as it does now), efficiently settle transactions which are both novated and non-novated.

QUESTIONS FOR THE BUSINESS COMMITTEE

ASX invites the Business Committee to provide feedback on the following:

- the timing of the commencement and completion of the CHESSE replacement project (noting that it is expected to be a 3 year project), and whether completion in H2 2017 or H2 2018 should be targeted;
- whether CHESSE releases in the year before implementation of the CHESSE replacement should be limited to service releases (fixes and upgrades) and whether there should be transparent criteria (for example, around added value, longevity etc.) for any new functionality in CHESSE releases in the year prior to that.

ATTACHMENT A – DRAFT ROADMAP FOR CASH MARKET POST-TRADE SERVICES INFRASTRUCTURE



- Key**
- ▲ Confirmed service release
 - ◻ Limited Service Releases- fixes, upgrades, set criteria see note below
 - ★ Core infrastructure development

CHES releases in 2016 will be limited to service releases or where minimum criteria are met (cost benefit analysis)
 CHES releases in 2017 will be limited to service releases (fixes and upgrades)

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4B

Topic	Transitioning to a T+2 settlement cycle in Q1 2016
Date of the Meeting	27 August 2014
Purpose of this paper	To update the Business Committee on the key considerations and next steps in changing the batch settlement cut-off time.
Action required	The Business Committee is invited to provide feedback on the next steps in changing the batch settlement cut-off time.

UPDATE ON T+2 RECOMMENDATION

At its 23 June 2014 meeting, the Forum recommended to the Boards of ASX Clear and ASX Settlement that implementation of a T+2 settlement cycle for cash equities be targeted for early first calendar quarter 2016, and that the batch settlement cut-off time be moved to no later than 12.00pm, with the precise timing subject to further consultation.

ASX is currently in detailed planning for the implementation of T+2, and will work with the industry throughout 2015 to help facilitate a smooth transition to a T+2 settlement cycle for cash equities in Q1 2016.

CONSULTATION ON BATCH SETTLEMENT CUT-OFF TIMING

ASX has commenced preliminary discussions with the Reserve Bank of Australia (RBA) and the Australia Payments Clearing Association (APCA) on changing the timing of the batch settlement cut-off.

As foreshadowed at the last meeting, ASX has also progressed a more detailed consideration of the implications of moving back the batch settlement cut-off time to either 11am, 11.30am and 12 noon for customers, their payment providers and ASX's default management processes in the event of a default.

Changing the batch settlement cut-off to a later time involves trade-offs between the expected benefits provided by an extension in the timing of the batch settlement cut-off and the flow-on impacts to daily post-settlement processes.

A key consideration in changing the batch cut-off time is the expected impact on managing a payment default event and whether a later batch cut-off could be implemented without adding significant additional risk in managing these events (albeit rare events).

This paper seeks to highlight the key considerations in changing the batch settlement cut-off time.

Key Customer Considerations

For customers, there are trade-offs between the benefits an extension in the timing of the batch settlement cut-off would be expected to deliver and other flow-on impacts to post settlement processes, including:

- the benefit of additional pre-settlement preparation time to finalise arrangements for stock lending, entrepot priming, issuer to CHESS conversions, DvP matching and managing client instructions;
- the benefit of improved time-zone alignment with Asian and Western Australian counterparts and their operational resources;
- additional time in the morning of settlement to minimise settlement failure and potentially avoid the higher costs from fail fees and or securities lending that could otherwise arise in managing to a T+2 settlement time;
- maintaining market efficiencies;

- flow-on impacts to funding processes, which would likely be required; and
- flow-on impact of reduced time in the afternoon to manage post settlement processes such as trust, treasury, and stock and cash allocations.

ASX Default Management Considerations

Following the completion of settlement notification, an incident of default would be triggered if ASX were to receive a payment rejection from a payment provider. The current deadline for this is 2.30pm, as documented in the payment providers deed. A payment rejection from a payment provider would activate a sequence of procedures to determine whether a full event of default has occurred and how market settlement should be managed. These procedures include:

- requesting confirmation in writing of the failure to pay from the payment provider;
- convening a participant incident response committee (payment failure) or default management committee (CCP batch failure);
- engaging with the defaulting participant and their payment provider; and
- determining final market actions to be taken and, if necessary, the ASX Clear funding injection required in the event of a CCP batch failure.

On the basis that there is no alteration to the current payment providers deed, an extension of batch settlement cut-off time compresses ASX's time to manage a situation in an incident of default. With a current cut off of 10.30am, incident management time is 2.5hours. Under a proposed cut-off of 12.00pm the incident management time is reduced to 1 hour. ASX has commenced discussions with the RBA to discuss the implications of this for managing an event of default. This impact (based on a range of alternative cut-off times) is highlighted in more detail in Attachment A.

Payment Provider Considerations

APCA have informally indicated that changing the batch settlement cut-off to a later time would have implications for payment providers which should be discussed with their members. These include:

- morning liquidity requirements may be pushed beyond standard money market sessions;
- critical authorisation activities may be delayed if they occur over lunch periods; and
- potential for a higher number of payment rejections should other cut-off times be amended due to reduced time to resolve matters.

Discussions with APCA and RBA

ASX met with the APCA secretariat and representatives from the RBA on 8 August 2014 to discuss the feedback received from industry, the Business Committee and the Forum on changing the batch settlement cut-off time to support the introduction of a T+2 settlement cycle for cash equities. ASX also presented the key considerations and implications for the different stakeholders associated with the range of options for changing the batch settlement cut-off time.

The APCA Secretariat agreed to arrange workshops with its members in September and October to discuss the potential for changing the batch settlement cut-off time.

The RBA representatives acknowledged the expected benefit of changing the batch cut-off to a later time in reducing the potential for increased settlement failure with the introduction of a T+2 settlement cycle and maintaining market efficiency. They requested to be updated regularly as consideration of changing the batch settlement cut-off is progressed and in relation to the implementation of T+2 more generally.

NEXT STEPS

ASX will continue discussions with APCA and its members, and the RBA in relation to changing the batch settlement cut-off time. In these discussions, ASX will explore the options for facilitating a later cut-off time, including:

- whether a minimum authorisation threshold for payment providers could mitigate delays in authorisation;
- whether this could be linked to a 'direct debit' mechanism where payments for settlement could be automatically settled by ASX without the need for authorisation from a payment provider;
- whether there should be joint ASX and customer engagement with payment providers to reduce the time for authorisation from the current 90 minutes to 60 minutes; and
- whether 2.30pm is the appropriate deadline for running final payment settlement.

ASX will present the feedback from these discussions and the analysis of default management processes to the Business Committee at its next meeting proposed for 27 November 2014 for a recommendation on the batch settlement cut-off time. Depending on the feedback received on these matters in the next couple of months, ASX may need to undertake a broad-based public consultation process.

The ASX will also establish an external T+2 Market Implementation Group with participation from key stakeholders, including SAA, ACSA, APCA, ACSA, share registries, participants and system vendors. While the changes to the batch settlement cut-off time will be a primary consideration, this group will also work towards full readiness for implementation of T+2 in Q1 2016.

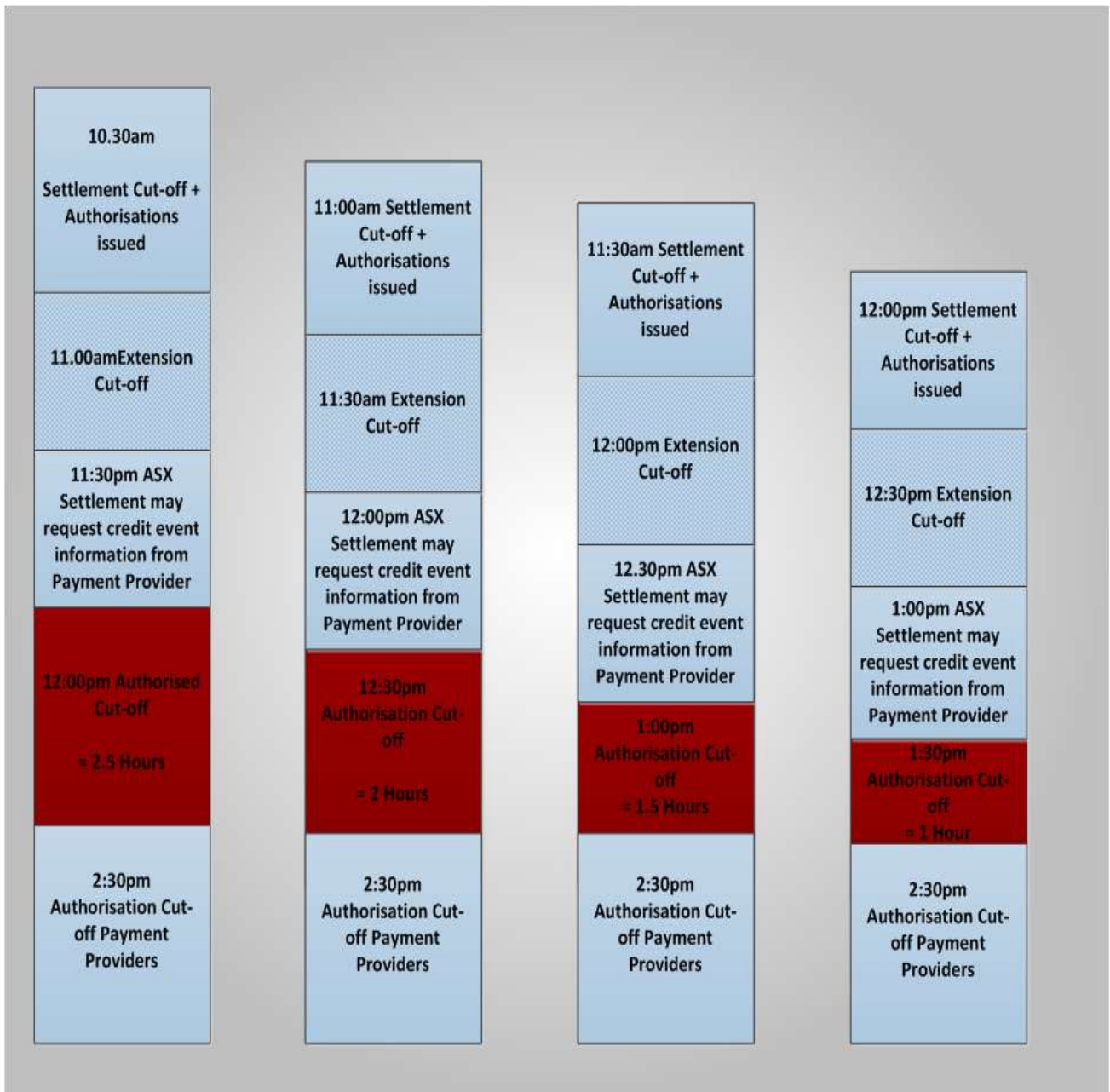
QUESTIONS FOR THE BUSINESS COMMITTEE

- Does the Business Committee agree to the proposed next steps, which will result in the Business Committee making a recommendation on the timing of batch cut-off time at its November meeting?
- Are there any other considerations not captured in this paper that ASX should be aware of?
- Would participants be willing to support changes to the payment providers deed if required?

Attachments

Attachment A – Batch settlement cut-off time – options and implications for changing the cut-off time

Attachment A: Batch Settlement Cut-Off Time – Options and Implications for Changing the Cut-Off Time



BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4C

Topic	Clearing Participant Structures – Considerations for Principal to Principal Clearing
Date of the Meeting	27 August 2014
Purpose of this paper	To update the Business Committee on progress in obtaining regulatory clarity on the 'look through' of retail client obligations to clearing participants.
Action required	The Business Committee is invited to provide feedback on the relative prioritisation of undertaking further work on P2P clearing arrangements.

BACKGROUND

At its May 2014 meeting, the Business Committee agreed that further work on 'Principal to Principal' (P2P) clearing arrangements should be progressed in two phases: (1) obtain regulatory clarity on the 'look through' of retail client obligations to clearing participants, and (2) further examine the development of P2P clearing arrangements in light of that clarification. A diagrammatic representation of a simplified cash market P2P clearing model, which was discussed at the last meeting, is provided in Attachment A.

In this context, 'retail client obligations' refers to the following obligations that Chapter 7 of the Corporations Act imposes on a financial services licensee when providing a financial service to a retail client: to have an appropriate retail AFS licence authorisation, to provide a financial services guide about the service, to have appropriate compensation and dispute resolution processes, and to follow certain requirements relating to the provision of financial advice.

REGULATORY CLARITY: STATUS UPDATE

ASX has commenced Phase 1 by:

- reviewing the current position of clearing participants with regard to look through to the retail clients of Trading Participants. Informal feedback received to date indicates that look through applies, having regard to: (1) ASIC's broad interpretation of the law relating to when a financial services licensee is taken to be dealing on behalf of a retail client, and (2) the 'deemed agreement' between the clearing participant and retail client that is mandated by ASX's Operating Rules and ASIC's Market Integrity Rules; and
- seeking ASIC's initial guidance on what policy issues would be significant for it in deciding whether it should be possible to restrict the application of retail client obligations to the trading participant (i.e. avoiding look through to the clearing participant) by implementing P2P clearing arrangements. This briefing was held on 11 August 2014 and ASIC has undertaken to revert with its initial views.

In order to simplify ASIC's task in providing the regulatory clarity sought by the Business Committee, ASX has to date deliberately restricted its Phase 1 work to the look through issue as it arises in cash market clearing only.

A range of other potential regulatory issues, besides look through of retail client obligations, would need to be considered – and may only crystallise – in the course of Phase 2. Those other issues have been and remain for now out of scope.

NEXT STEPS

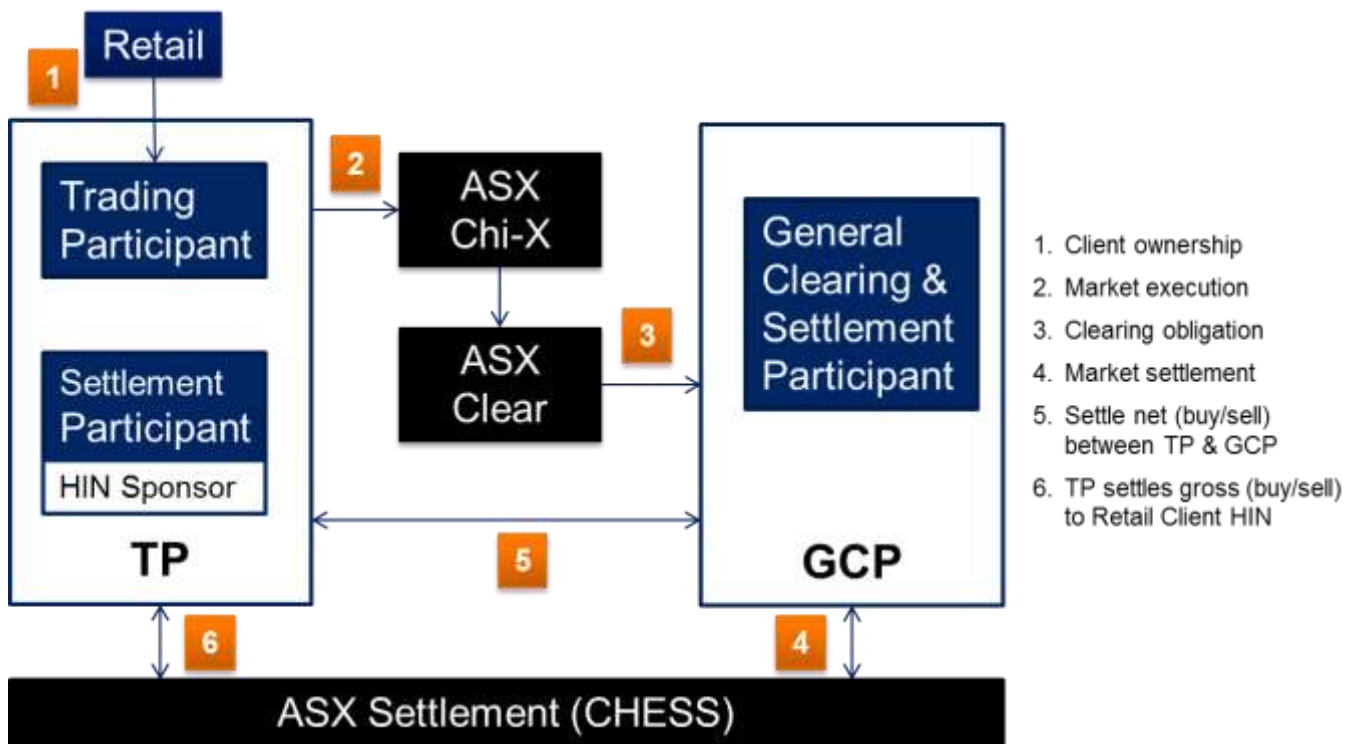
Business Committee Members are invited to:

- comment on the priority that should be given to further work on P2P clearing arrangements relative to other items in the Code of Practice work plan (such as CHESS replacement);
- comment on whether P2P clearing is viable if limited only to cash market clearing or whether it would need to extend to the ETO market; and
- nominate representatives to work with ASX on a more detailed cost/benefit analysis and operational outline of P2P clearing arrangements.

Attachments

Attachment A – Simplified cash market principal to principal clearing model.

ATTACHMENT A: SIMPLIFIED CASH MARKET PRINCIPAL TO PRINCIPAL CLEARING MODEL



POTENTIAL BENEFITS

- Flexibility in business models
- Capital benefits
- Scale benefits
- No retail look through
- DVP settlement
- Client HIN sponsorship

ISSUES FOR CONSIDERATION

- Client protections
- Regulatory challenges
- Maintain settlement efficiencies
- CHES developments
- Default management protocols TP and GCP

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5A

Topic	ASX Clear Recovery Plans
Date of the Meeting	27 August 2014
Purpose of this paper	To provide Business Committee members with an outline of ASX Clear's proposed recovery plans and upcoming consultation.
Action required	To note the agenda paper.

BACKGROUND

Following the GFC, there has been increasing recognition of the systemic importance of financial market infrastructures (FMIs) (including central counterparties and securities settlement facilities), which has resulted in the introduction of domestic and international regulations in relation to the recovery and resolution of FMIs.

Recovery refers to the actions taken by a distressed FMI to return to viability. Resolution refers to actions taken by a financial market regulator to either return a distressed FMI to viability or facilitate its orderly wind down.

ASX Clear and ASX Settlement are FMIs which are required to comply with various domestic and international regulations in relation to recovery and resolution.

APPLICABLE REGULATIONS

Recovery

Under the Financial Stability Standards (FSS), ASX Clear and ASX Settlement must comply with a number of obligations in relation to recovery and resolution including:

- having a recovery plan which addresses extreme stress scenarios that may threaten the FMIs ability to provide its critical services. The two main loss categories are participant default (ASX Clear only) and general business losses (including investment counterparty losses, custody losses and operational losses); and
- establishing rules and procedures that:
 - fully allocate any credit losses from participant default that exceed available financial resources (ie beyond the waterfall) (for ASX Clear only);
 - fully address any uncovered liquidity shortfall (for ASX Clear only);
 - address non-default losses; and
 - enable replenishment of financial resources utilised during a stress event.

These standards will be supplemented by proposed CPSS-IOSCO guidance on *Recovery of Financial Market Infrastructures*. Draft guidance has been issued but the timing of final guidance remains uncertain.

Resolution

The Australian Treasury is developing legislative proposals for a resolution regime consistent with international standards.

The FMI resolution regime is expected to:

- be modelled on the ADI statutory management framework under the Banking Act;
- give resolution authority power to enforce recovery measures contained in an FMIs Operating Rules where the FMI is unable to execute those measures itself; and
- provide ancillary powers to pursue other means of maintaining continuity of service (eg transfer of operations, changes in governance).

Draft legislation is expected to be released for consultation in late 2014.

CURRENT STATUS

ASX has developed a basic recovery plan for each of ASX Clear and ASX Settlement based on the facilities' existing powers, which it has provided to the Reserve Bank of Australia (RBA) as the appropriate regulatory agency. The plan identifies scenarios that could threaten each facility's ongoing provision of critical clearing or settlement services and sets out how ASX would respond to such scenarios on the basis of its existing powers under each facility's Operating Rules and Procedures.

The existing rule powers that may be used by ASX Clear in recovery situations include:

- use of offsetting transaction arrangements to manage liquidity for cash market products on participant default;
- call emergency assessments of up to \$300m in aggregate (with a cap of \$30m per participant) for a single default; and
- compulsory termination of exchange traded derivatives.

These powers are not comprehensive for the purposes of the new recovery standards and will need to be enhanced. ASX is currently formulating its potential recovery tool options and ASX's preferred approach for new loss allocation and replenishment tools for ASX Clear to address the new FSS requirements set out above.

The potential tools being considered as identified in the draft CPSS-IOSCO guidance are set out in the following table. The tools adopted will need to address cash market products and exchange traded derivatives products. These options are illustrative only and do not necessarily represent ASX's preferred approach.

Recovery tools for participant default	Recovery tools for liquidity shortfalls
<ul style="list-style-type: none"> • Emergency assessments • Variation margin gains haircutting • Initial margin haircutting • Tear up- partial or complete • Forced participation in auctions or allocation 	<ul style="list-style-type: none"> • Third party funding (from within or outside the ASX Group) • Variation margin gains haircutting • Offsetting transaction arrangements • Other funding from non-defaulting participants
Recovery tools for replenishment	Recovery tools for non-default losses
<ul style="list-style-type: none"> • Cash calls on participants • Additional equity capital 	<ul style="list-style-type: none"> • Cash calls on participants • Additional equity capital • Insurance

Key selection and implementation considerations include:

- domestic and international regulatory obligations and guidance;
- bank regulatory capital impact and prudential constraints;
- clearing house international (peer/competitor) best practice; and
- distinguishing features of the Australian market and ASX's clearing houses.

NEXT STEPS

Subject to the timing of release of relevant regulations and guidance, ASX expects to undertake public consultation in relation to recovery tool options and ASX's preferred approach for ASX Clear in October 2014 and draft Operating Rule amendment in Q1 2015. ASX aims to implement the necessary enhancements to the rules by mid-2015 as required by the RBA.

ASX is about to commence bilateral discussions with a number of participants to elicit feedback ahead of the public consultation. Any participant who is interested in providing feedback or obtaining a further briefing is welcome to contact either Janine Ryan (General Manager, Legal) or Brad McCosker (Senior Adviser, Clearing Risk Policy), both of whom will be attending the Business Committee meeting.

BACKGROUND READING

- CPSS IOSCO Consultative Report on Recovery of Financial Market Infrastructure (August 2013) - <http://www.bis.org/publ/cpss109.pdf>
- FSB Consultative Report on Application of the Key Attributes of Effective Resolution Regimes to Non-Bank Financial Institutions (August 2013) - http://www.financialstabilityboard.org/publications/r_130812a.pdf
- RBA Bulletin – Recovery and Resolution of Central Counterparties (December 2013) - <http://www.rba.gov.au/publications/bulletin/2013/dec/5.html>
- Bank of England Financial Stability Paper Central Counterparty Loss Allocation Rules - http://www.bankofengland.co.uk/research/Documents/fspapers/fs_paper20.pdf

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5B

Topic	ASX Clear and European Capital Risk Weightings
Date of the Meeting	27 August 2014
Purpose of this paper	To inform the Business Committee members of the recent application made to ESMA for recognition of ASX Clear as a CCP under EMIR.
Action Required	To note the agenda paper.

SUMMARY

ASX has recently lodged an application with ESMA for recognition of ASX Clear as a CCP under EMIR, which would allow European banks and their subsidiaries to treat ASX Clear as a Qualifying CCP (QCCP) for regulatory capital purposes. ESMA recognition would achieve a material reduction in the regulatory capital requirement on trade exposures and contingent ASX Clear default fund contributions ("Emergency Assessments") for clearing participants (CPs) or clients who are part of EU regulated banking groups.

BACKGROUND

ASX applied to ESMA for recognition of ASX Clear (Futures) in September 2013 because of its EU-headquartered banking group CPs who are legally required to only clear with ESMA-recognised CCPs. ESMA recognition for ASX Clear was not sought at that time because it had no EU-headquartered banking group CPs. Recent communication from EU regulated bank subsidiaries clearing on ASX Clear has confirmed that recognition of ASX Clear as a QCCP will materially reduce (at the group level) the regulatory capital requirements for such CPs.

TIMELINE AND IMPACT OF RECOGNITION

At this stage, ASX does not have a clear timeline for the outcome of the application. We are aware that ESMA has a large pipeline of applications to consider. At this point, ASX does not have formal confirmation of the conditions that would apply if ASX Clear were to obtain recognition. ASX may withdraw the application if the ESMA requirements for recognition are too onerous and/or costly to implement for the market as a whole relative to the capital benefits achieved by CPs subject to EU regulation. ASX is in close contact with the relevant Australian regulator (RBA) in relation to these matters.

ADDITIONAL MITIGATING ACTION TO BE TAKEN BY ASX

Given the uncertainty over both the eventual outcome and timing of ASX Clear's application, ASX is seeking to mitigate the capital impact on EU regulated CPs of ASX Clear not being recognised as a QCCP by undertaking the monthly calculation of individual CP's theoretical (i.e. assuming a default had occurred) pro-rata share of emergency assessments. This is to assist EU regulated CPs in making a case to their regulators for a lower capital requirement than one simply based on the maximum capped emergency assessment (currently set at \$30m per CP per default).

GOING FORWARD

ASX will monitor closely the progress of the application. A decision regarding whether to proceed with the application will depend upon any conditions imposed and the financial impact these conditions will have on the market as a whole.

The Business Committee will be kept informed of the progress of the application.

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 6A

Topic	Forward Work Program
Date of the Meeting	27 August 2014
Purpose of this paper	To update the Business Committee on items completed from the forward work program and seek input on the development of the forward work program out to November 2015.
Action Required	The Business Committee is invited to provide feedback on the topics for discussion and the prioritisation of those topics included in the draft forward work program extending to November 2015.

OVERVIEW

Included in Attachment A is the forward work program that the Business Committee provided input into at its first meeting in August 2013, and which was subsequently endorsed by the Forum on 2 October 2013. The forward work program covers the period of meetings of the Business Committee from August 2013 to August 2014. Aside from the topics on participant location requirements and the guidance on outsourcing and offshoring, all of the topics included in the forward work program have been discussed, and progressed where relevant. It is proposed that participant location requirements and the guidance on outsourcing and offshoring be included in the next forward work program and be discussed in upcoming meetings.

Included in Attachment B is a draft forward work program proposed for Business Committee meetings to be held from November 2014 to November 2015.

The draft forward work program is consistent with previous forward work program in that it has been developed around the following four major themes:

1. Capital efficiency and industry economics;
2. Participant structure flexibility and efficiency;
3. Service Innovation; and
4. Technology and Infrastructure enhancements.

QUESTIONS FOR THE BUSINESS COMMITTEE

- Does the draft forward work program extending to November 2015 reflect industry priorities?
- Are there additional topics that should be included in the draft forward work program?

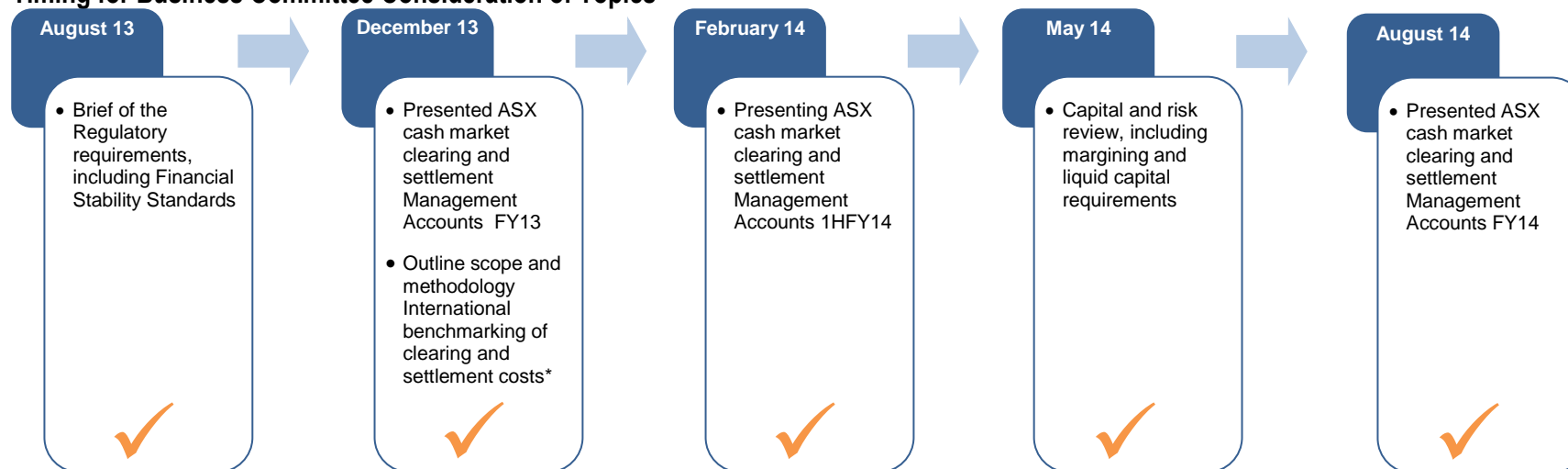
Attachments

Attachment A – Forward work program - August 2013 to August 2014

Attachment B – Draft forward work program – November 2014 to November 2015

Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
1. Capital Efficiency and industry economics	To minimise the capital costs for ASX's customers whilst maintaining robust CCP capital support	a. ASX cash market clearing and settlement economics	ASX published the management accounts in respect of the clearing and settlement of cash equities in Australia on the 22 nd August 2013 at the same time that ASX reported its full-year results. ASX will provide a detailed briefing at the 19 February 2014 Business Committee meeting.
		b. International benchmarking of cash market clearing and settlement costs*	ASX Clear and ASX Settlement will consult the Forum and 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 provided since the introduction of cash market margining and will review liquid capital requirements in this context.
		d. Regulatory requirements, including Financial Stability Standards	ASX will brief the Committee on the ASX consultation paper on the new Financial Stability Standards relating to account segregation and portability, and liquidity risk released on 29 July 2013.

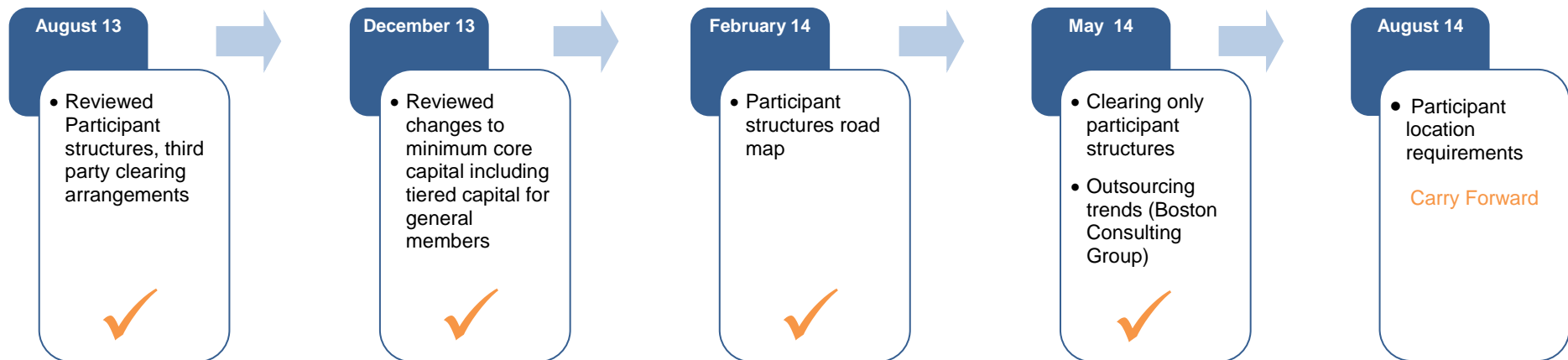
Timing for Business Committee Consideration of Topics



* Oxera Consulting presented the final Global Cost Benchmarking of Cash Equity Clearing and Settlement Service Report to the Business Committee on 18 June 2014.

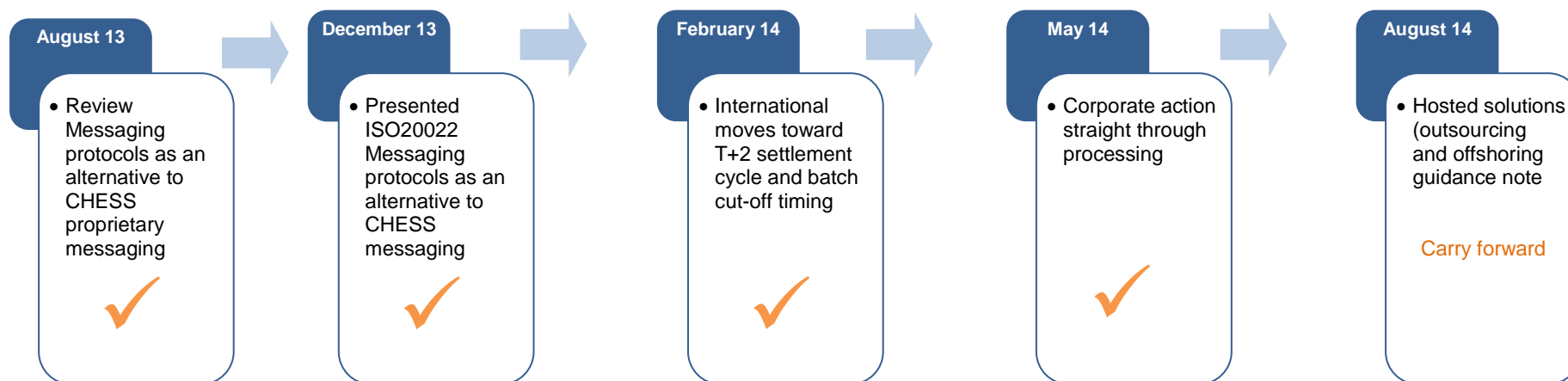
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
2. Participant Structure Flexibility & Efficiency	To align ASX's participant access regime with its customers' evolving business models	a. Participant structures, including shadow broking & road map	ASX will also provide a 'road map' of initiatives aimed at improving participant structure flexibility and efficiency. ASX will present a proposal for the introduction of tiered capital for general clearing participants. ASX will also 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. HIN sponsorship arrangements will also be examined in this review.
		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 settings, and identify 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 an update on approvals and explain how these changes relate to third party clearing arrangements.

Timing for Business Committee Consideration of Topics



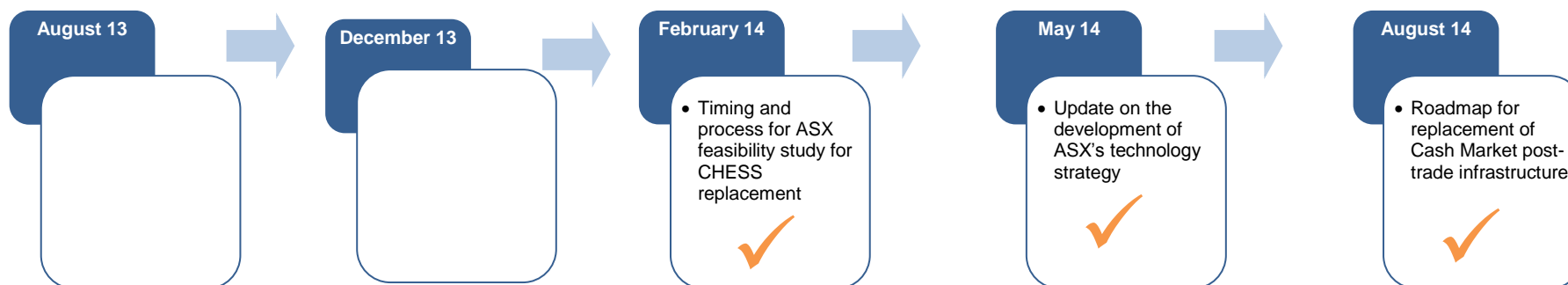
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
3. Service Innovation	To deliver global best practice cash market clearing and settlement services	a. Corporate action straight through processing	An initiative which will deliver a streamlined process for the announcement, data capture and delivery (using ISO 20022) of corporate action information. The first phase of the initiative includes dividends, interest payments, capital returns reorganisations, and is expected to be live by end 2013.
		b. SWIFT messaging as an alternative to CHES proprietary messaging	ASX will present a proposal to introduce a global messaging standard as an alternative to CHES proprietary messaging.
		c. International moves toward T+2 settlement cycle & batch cut-off times	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. The Committee will explore what this might mean in the Australian context, and also consider batch settlement timing against an international comparison.
		d. Hosted solutions and offshoring arrangements	ASX will provide an update on industry trends towards clearing and settlement participant hosted solutions, including offshoring arrangements, and seek the Committee's feedback on whether greater flexibility is required and could be supported under current risk, legal and regulatory settings.
		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.

Timing for Business Committee Consideration of Topics



Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
4. Technology & Infrastructure Enhancement	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 may need to be established in order to roadmap industry considerations and requirements.
		c. Connectivity and standardised interfaces	ASX will provide a connectivity and interface standardisation roadmap and further review connectivity options (eg. ASX Net, SWIFTNet etc.)

Timing for Business Committee Consideration of Topics

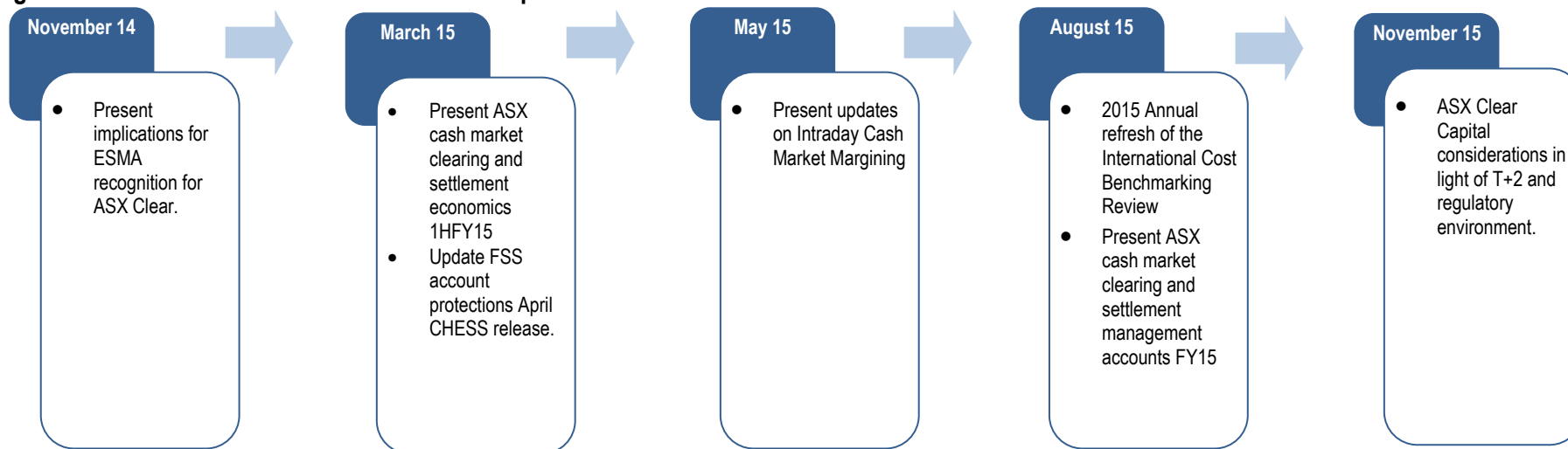


Post Council of Financial Regulators’ review & policy decision on market structure in Q1 2015

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

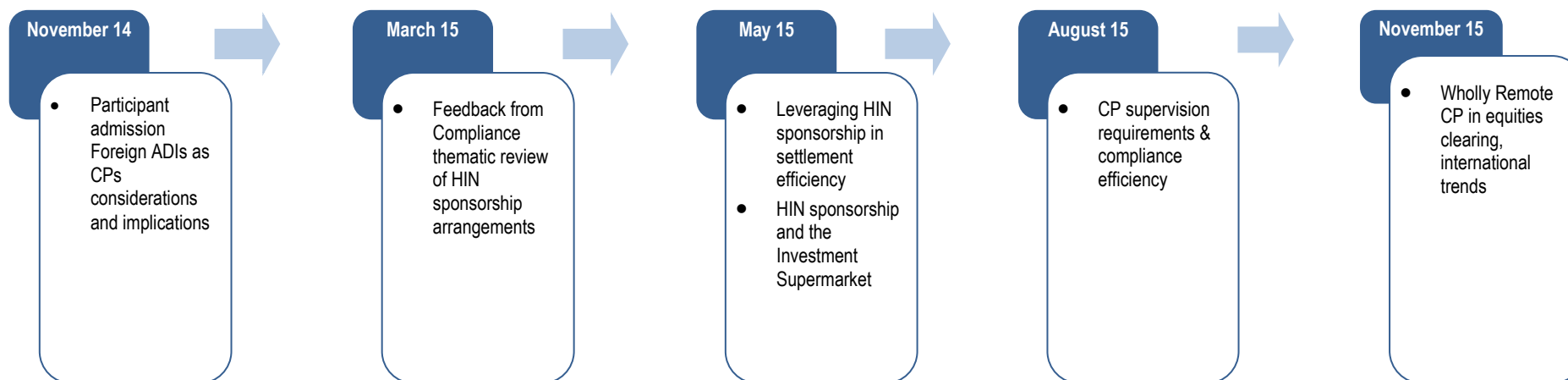
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
1. Capital Efficiency and industry economics	To minimise the capital costs for ASX's customers whilst maintaining robust CCP capital support	a. ASX cash market clearing and settlement economics	ASX to publish management accounts in respect of the clearing and settlement of cash equities in Australia at the same time that ASX reports its half and full-year results. ASX will provide a detailed briefing at the Business Committee meeting following publication of results.
		b. International benchmarking of cash market clearing and settlement costs	ASX Clear and ASX Settlement will refresh and review annually the results of the June 2014 international price benchmarking report on the cost of post trade services.
		c. Capital and risk review, including margining and liquid capital requirements	ASX will provide a review of risk protections provided since the introduction of cash market margining and will review liquid capital requirements in this context.
		d. Regulatory requirements, including Financial Stability Standards	ASX will update the Committee on the ASX progress in meeting new Financial Stability Standards (FSS) relating to account segregation and portability, and liquidity risk.

Timing for Business Committee Consideration of Topics



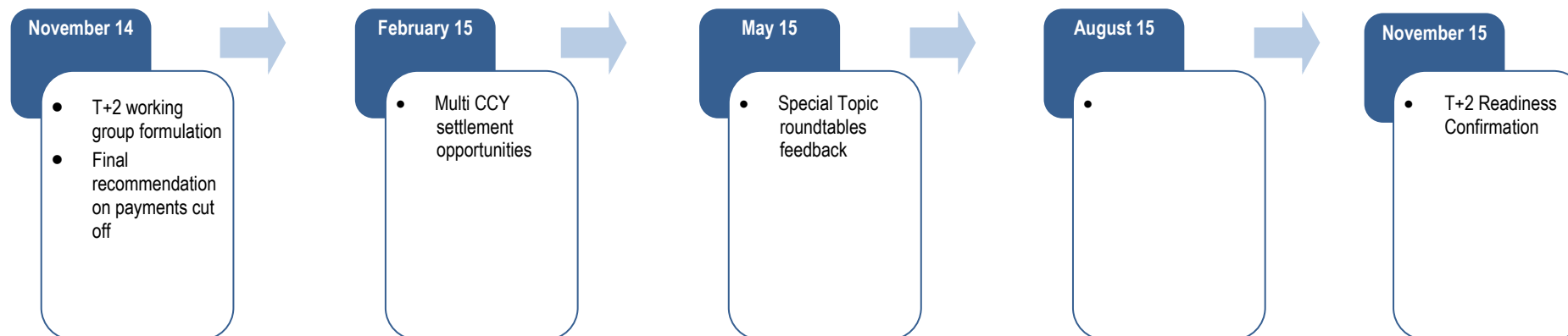
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
2. Participant Structure, Flexibility & Efficiency	To align ASX's participant access regime with its customers' evolving business models	a. Participant structures, admission requirements	ASX will continue to explore additional proposals on alternate clearing participant admission criteria including harmonisation and standardisation across ASX CCPs. ASX will seek feedback on potential benefits to industry of potential changes.
		b. Participant Structure variations	ASX will present a proposal for alternative participant operating structures, including the potential introduction of a principal to principal model or enhanced settlement participant models or HIN sponsorship arrangements. ASX will seek feedback on potential benefits to industry of potential changes in terms of capital costs, margin efficiencies, operating costs and transactional efficiency.
		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 settings, and identify 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.

Timing for Business Committee Consideration of Topics



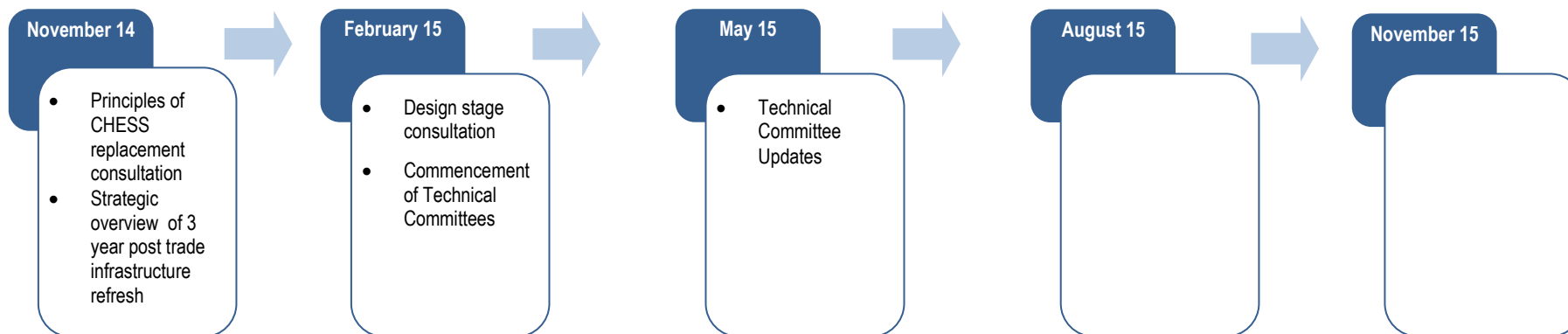
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
3. Service Innovation	To deliver global best practice cash market clearing and settlement services	a. Corporate action straight through processing	The ASX will present opportunities for future and continued enhancements in streamlined processes for corporate actions in context of CHES replacement plans. Principles which will deliver a streamlined process for the announcement, data capture and delivery (using ISO 20022) of corporate action information.
		b. Australians timeline for T+2 settlement cycle & final batch cut-off conclusions	ASX will provide regular verbal updates on the industries move to meet T+2 settlements by 1Q2016. The Committee will explore final consideration for changes to batch cut off as well as industry engagement on ETF market issues, Bond Market and International Market alignment.
		c. Clearing and Settlement Hosted solutions	ASX will provide an update on industry trends towards clearing and settlement participant hosted solutions, and seek the Committee’s feedback on whether greater flexibility is required and could be supported under current risk, legal and regulatory settings.
		d. Non novated settlement efficiencies	ASX will host a number of operational roundtables to discuss settlement delivery efficiencies and innovations.
		e. Multi CCY considerations	ASX will review opportunities for multi-currency settlement in light of current offerings in RMB and future CHES replacement plans.

Timing for Business Committee Consideration of Topics



Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
4. Technology & Infrastructure Enhancement	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 including clearing, risk, settlement and depository functionality.
		b. Timing and process for ASX feasibility study for CHES replacement	ASX will provide detailed plans for the equity clearing and settlement capabilities and CHES replacement feasibility study. A technical committee will be established in order engage industry participants and stakeholders, including vendors, on implementation considerations and requirements.

Timing for Business Committee Consideration of Topics



BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 6B

Topic	Code of Practice Review and Proposed Business Committee Meeting Dates
Date of the Meeting	27 August 2014
Purpose of this paper	To inform the Business Committee of the internal and external reviews of the Code of Practice and proposed meeting dates for Q4 2014 and calendar year 2015.
Action required	The Business Committee is invited to provide feedback on proposals to move to quarterly meetings and to incorporate an additional half hour at the end of each meeting agenda to discuss post-trade services for exchange traded options (ETOs).

CODE OF PRACTICE REVIEW

In accordance with the commitments in the Code of Practice for Clearing and Settlement of Cash Equities in Australia (Code of Practice), an internal and external review of the operation of the Code of Practice have been undertaken for the period 9 August 2013 to 30 June 2014. ASX engaged PwC as the independent external auditor to review of the operation of the Code of Practice.

The internal and external reviews have found that ASX is in broad compliance with the obligations included in the Code of Practice and have not identified any areas of significant non-compliance. The reviews have identified three areas where exceptions to the requirements of the Code of Practice were noted. None of these are considered significant by the external auditor. The three exceptions relate to:

- The ASX CEO chaired the first Forum meeting. The Code requires the Chair to be a Non-Executive Director.
- The Forum agenda for the first Forum meeting was published 6 days in advance of the meeting. The Code requires it to be published 1 week before the meeting.
- The contact email address for the Forum Chair was incorrectly displayed on the website due to a typographical error.

As part of the Review, PwC sent a survey to all Forum members seeking feedback on the operation and effectiveness of the Forum. The two non-confidential responses to the survey that were received are attached to the report from the external review.

The PwC report on the external review will be provided to Forum members ahead of the next Forum meeting to be held on 1 October 2014.

The reports from both the internal and external reviews were published on the ASX website on 21 August 2014.

The PwC report on the external review is provided in Attachment A.

PROPOSED BUSINESS COMMITTEE MEETING DATES

On the basis of the level of engagement in, and the effectiveness of, the Business Committee over the last 12 months, ASX is proposing to increase the number of meetings of the Business Committee from 3 to 4 meetings per year. If Business Committee members are supportive of moving to quarterly meetings, ASX proposes to hold an additional Business Committee meeting on Thursday, 27 November 2014.

Notwithstanding that post-trade services for ETOs is outside the scope of the Code of Practice and, subsequently the mandate of the Business Committee, ASX proposes to incorporate an additional half hour at the end of each meeting agenda to discuss post-trade services for ETOs, commencing at the next meeting. The basis for including a standing agenda item for the Business Committee to discuss post-trade services for ETOs is the increasing number of topics that cross-over cash equities and ETOs as a result of a shared clearing house, including recovery and resolution, and ESMA recognition.

In recognition of the case that the bulk of the work included in the forward work program has been progressed by the Business Committee, ASX intends to ask the Forum whether a move to quarterly Business Committee meetings should be accompanied by moving to bi-annual Forum meetings rather than the current arrangement of 3 meetings per year.

Subject to consultation with the Forum and feedback from Business Committee members, the meeting dates for the Forum and Business Committee are proposed for 2015 are provided below.

Forum Meeting Dates	Business Committee Meeting Dates
Wednesday, 15 April 2015 Commencing at 10.30am	Wednesday, 4 March 2015 Commencing at 12 noon
Wednesday, 7 October 2015 Commencing at 10.30am	Wednesday, 27 May 2015 Commencing at 12 noon
	Thursday, 27 August 2015 Commencing at 12 noon
	Thursday, 26 November 2015 Commencing at 12 noon

Attachments

Attachment A – PwC report of the review of the operation of the Code of Practice



The Directors
ASX Settlement Pty Limited and ASX Clear Pty Limited
Exchange Centre, 20 Bridge Street
SYDNEY NSW 2000

Dear Directors,

1. Background

ASX Settlement Pty Limited and ASX Clear Pty Limited (together hereinafter referred to collectively as 'the ASX' or 'ASX') operate the sole licensed clearing and settlement facilities in Australia providing clearing and settlement systems and services for the Australian cash equity market. Clearing and settlement services are critical to the operation of Australia's financial markets, providing investors efficiency in equity transactions and reducing counterparty and systemic risk.

Through its commitment to the ongoing development of clearing and settlement services to ensure that the needs of users are met and that services provided are aligned with global standards, the ASX in consultation with industry stakeholders and Australian regulators developed a Code of Practice for the Clearing and Settlement of Cash Equities in Australia ("the Code").

This Code came into effect on 9 August 2013 with the aim of formalising the ASX's commitment of working with clearing and settlement users to ensure their needs are met and they are engaged in a timely and transparent manner in relation to the ongoing development of clearing and settlement services and infrastructure.

2. Purpose of our report

The Code requires that, on an annual basis, the ASX conducts both an internal review of the operation of the Code, as well as engaging an independent external auditor to perform its own review.

PwC has been engaged by the ASX as the independent external auditor to review the operation of the Code for the period 9 August 2013 to 30 June 2014. As required by the Code, we have prepared this report to outline the procedures performed by PwC in relation to our review of the operation of the Code and the results of those procedures.

3. Scope of work

The scope of our procedures in relation to our review of the operation of the Code is in accordance with the requirements of section 5 of the Code, as reproduced in the extract below:

"(b) Additionally, ASX will engage an independent external auditor to conduct an annual review and prepare a written report regarding the operation of the Code, including with respect to:

- (1) ASX's compliance with the cost allocation principles described in clause 3.2;*
- (2) ASX's compliance with the access request protocols described in clause 4.3(c) relating to requests for access to clearing and settlement services;*



- (3) *ASX's compliance with the operational standards described in clause 6(c) relating to the protection of competitively sensitive information acquired by ASX Clear and ASX Settlement in the course of providing the TAS and the settlement facilitation service; and*
- (4) *ASX's pricing to verify that there is no discrimination between ASX-affiliated entities and other users of clearing and settlement services.*

The external review will be completed and the external auditor's report will be published within 3 months following the end of each financial year. The external auditor's report will be provided to the Boards of ASX Clear and ASX Settlement and the Forum promptly after the report's completion. ASX will publish the report on the ASX website."

4. Use of the work of ASX Limited Internal Audit department (Internal Audit)

As noted above, the ASX is required to conduct an annual internal review regarding the operation of the Code. This review has been assigned to Internal Audit. Given the concurrent timing and consistent nature of the procedures to be performed in relation to the operation of the Code, PwC and Internal Audit have worked collaboratively to meet their respective obligations under section 5 of the Code.

Specifically, in performing our procedures, we have relied in part on the procedures performed by Internal Audit in relation to assessing the ASX's compliance with certain obligations outlined in the Code. Such reliance has been used to supplement our own procedures, and in certain cases in place of performing separate procedures.

In determining whether reliance can be placed on the procedures by Internal Audit we have given due consideration to the guidance in Auditing Standard ASA 610 – *Using the Work of Internal Auditors*. ASA 610 requires that, in determining whether the work of an internal audit function can be used, the external auditor shall evaluate:

- (a) The extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors;
- (b) The level of competence of the internal audit function; and
- (c) Whether the internal audit function applies a systematic and disciplined approach, including quality control.

Having performed the evaluation required under (a) to (c) above we determined it was appropriate and reasonable to place partial reliance on the work performed by Internal Audit.

To determine the extent to which reliance could be placed, we:

- 1) Performed an assessment to determine the inherent complexity of each Code obligation. For those Code obligations we deemed to be less complex and subjective in nature, we have place reliance on the work performed by Internal Audit. For the more complex and subjective Code obligations we performed our own independent procedures.



- 2) For those Code obligations where we have placed reliance on Internal Audit, we have re-performed a sample of Internal Audit's procedures to evaluate the adequacy of their work.

Those obligations where Internal Audit's procedures have been utilised to supplement or replace our procedures have been outlined in Appendix A. In addition to the reliance referred to above, we have also considered the results of the work performed Internal Audit in totality.

5. Procedures & Results

To meet our obligations under section 5 of the Code, we designed procedures in relation to each obligation under the code to assess the extent to which the obligations were being met. The procedures were determined based on our professional judgement.

The specific procedures, together with the results from performing those procedures, are detailed in Appendix A of this report.

In performing our procedures we noted a number of observations and potential non-compliance with certain obligations of the Code. These observations and findings have been documented in Appendix A in the results sections of the respective procedures to which they relate.

We believe the observations and findings, individually and in aggregate are administrative and minor in nature and do not impact on ASX's overall compliance of the Code obligations.

6. Disclaimer

This report is intended solely for the use of ASX Settlement Pty Limited and ASX Clear Pty Limited for purposes set out above. As the specified user of our report, it is for you to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than the specified users for any consequences of reliance on this report for any purpose.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Matthew Lunn', written over a faint horizontal line.

Matthew Lunn
Authorised Representative



Code Obligation	Scope	Procedure	Findings
1. ASX's Commitment			
1.1 Purpose of the Code			
(a) ASX has put this Code in place to increase transparency and accessibility in the provision of clearing and settlement services for cash equities in Australia and to formalise avenues for regular and meaningful user engagement.	Statement	No procedures performed as this section articulates the purpose of the Code.	Not Applicable.
(b) This Code builds on the principles contained in the Customer Charter of ASX in which ASX commits to: <ol style="list-style-type: none"> 1) work with customers to deliver products and services that meet their needs and that provide them with choice; 2) support Australia's aspiration to be globally competitive and become one of the leading financial centres in the Asia Pacific region; 3) make its products and services available on a non-discriminatory basis and on reasonable commercial terms; 4) manage its businesses and operations on a commercial basis to benefit its customers and provide appropriate returns to ASX shareholders; 5) recognise its role as a provider of critical financial infrastructure to the Australian financial markets, and make the necessary investments to ensure it can fulfil this role and provide confidence to market participants, investors and regulators; 6) run its operations in compliance with all legal and regulatory obligations; and 	Statement	No procedures performed as this section articulates the purpose of the Code.	Not Applicable.



Code Obligation	Scope	Procedure	Findings
7) maintain conflict handling arrangements that provide assurance and transparency about the way ASX conducts its business.			
1.2 Clearing and settlement for Australian cash equity market			
(a) ASX Clear and ASX Settlement operate the sole licensed clearing and settlement facilities providing clearing and settlement systems and services for the Australian cash equity market. ASX Clear provides central counterparty clearing services for a range of financial products including cash equities and equity options. ASX Settlement provides services for the settlement of equities and other deliverable products. Clearing and settlement of cash equities is conducted through a shared operating system CHES.	Statement	No procedures performed as this section articulates the purpose the function of clearing and settlement.	Not Applicable.
(b) ASX is committed to sharing with users of its services benefits and efficiencies arising out of the ASX group structure.	Statement	No procedures performed as this section articulates commitment to users.	Not Applicable.
1.3 Scope of this Code			
(a) This Code deals with: 1) the clearing and settlement services provided by ASX Clear and ASX Settlement for the Australian cash equity market; and 2) the gateways and infrastructure supporting the provision of those services.	Statement	No procedures performed as these sections articulate the scope of the Code. The scope of the Code is referenced and considered for the coverage of our procedures over the obligations outlined in the remaining Code.	Not Applicable.



Code Obligation	Scope	Procedure	Findings
(b) Clearing and settlement services for cash equities are provided pursuant to the operating rules of ASX Clear and ASX Settlement, the TAS Legal Terms and settlement facilitation service agreements between ASX Settlement and ALMOs.	Statement	Refer to section 1.3 (a) above.	Not Applicable.
(c) This Code does not deal with clearing and settlement services supporting either exchange-traded or OTC derivatives markets or OTC debt markets.	Statement	Refer to section 1.3 (a) above.	Not Applicable.
1.4 Development of the Code			
(a) This Code has been developed following consultation with users and in response to a report prepared by the Council of Financial Regulators and accepted by the Deputy Prime Minister and Treasurer on 11 February 2013.	Statement	No procedures performed as this section articulates the development process for the Code.	Not Applicable.
(b) The Council of Financial Regulators will carry out a public review of the Code's implementation and effectiveness, and ASX's adherence to it by early 2015.	Statement	No procedures performed as this section articulates the review timetable for the Code.	Not Applicable.
2. The Forum			
2.1 Establishment			



Code Obligation	Scope	Procedure	Findings
(a) ASX will establish an advisory forum (the Forum) within 3 months of the commencement of this Code.	Reliance on IA	Check the convening of the first Forum meeting was established within 3 months of Code commencement.	<p>The Code commenced on 9 August 2013 as noted from the Code document available on the Clearing and Settlement of Cash Equities in Australia website (www.asx.com.au/cs, "the website").</p> <p>The Forum members were finalised by 18 July 2013 as noted from a media release dated 18 July 2013.</p> <p>The first Forum meeting was held on 2 October 2013 as noted from minutes posted on the website.</p>
(b) The first meeting of the Forum will be held no later than 30 November 2013.	Reliance on IA	Check the date of the first Forum meeting was held no later than 30 November 2013.	The first Forum meeting was held on 2 October 2013 as noted from minutes posted on the website.
2.2 Objectives			
(a) The objectives of the Forum are: <ul style="list-style-type: none"> 1) to provide user input to the Boards of ASX Clear and ASX Settlement from a wide range of users in relation to ongoing investment in the design, operation and development of the core clearing and settlement infrastructure for the Australian cash equity market, including CHES; 2) to consider any matters of common interest arising under the Code or in the principles set out in the report prepared by the Council of Financial Regulators; and 3) to provide a formal mechanism for the Boards of ASX Clear and ASX Settlement to report to users 	Statement	This section outlines the objectives of the Forum. These objectives are reviewed in later sections of the Code when considering the composition, operation and management of the Forum and reporting to and from the Clearing and Settlement Boards.	Not Applicable.



Code Obligation	Scope	Procedure	Findings
<p>on their strategic plan and investment decisions in relation to the design, operating and development of the core clearing and settlement infrastructure for the Australian cash equity market, including CHES.</p>			
<p>(b) Members of the Forum will not consider or discuss any competitively sensitive information in contravention of the Competition and Consumer Act 2010 (Cth).</p>	Statement	<p>No procedures performed as this section articulates that competitively sensitive information will not be discussed as part of the Forum, which is not an obligation on the ASX.</p>	Not Applicable.
<p>2.3 Membership</p>			
<p>(a) The Forum will consist of representatives of a wide range of user groups with a view to achieving a balance among the interests of the different user groups so that the Forum can function as an effective process for providing user input to the Boards of ASX Clear and ASX Settlement.</p>	Statement	<p>No procedures performed as the composition of the Forum is considered as part of 2.3(b).</p>	Not Applicable.
<p>(b) The Forum will consist of:</p> <ol style="list-style-type: none"> 1) up to ten members representing clearing participants and settlement participants; 2) a member representing alternative market operators; 3) a member representing the Australian Financial Markets Association; 4) a member representing the Stockbrokers Association of Australia; 	Reliance on IA	<p>Based on the Forum membership records check the Forum has:</p> <ol style="list-style-type: none"> 1) no more than 10 members representing clearing and settlement participants (excluding ASX Group company representatives); 2) an alternative market operator member; 3) an Australian Financial Markets 	<p>The members of the Forum as listed on the website as at 7 March 2014 include:</p> <ol style="list-style-type: none"> 1) representatives from 10 cash market clearing and settlement participants; 2) a representative from an alternative market operator; 3) a representative from AFMA 4) a representative from SAA 5) a representative from a system vendor 6) a representative from a share registry 7) a representative from a payment system service provider 8) a representative from a custodial service provider



Code Obligation	Scope	Procedure	Findings
5) a member representing system vendors; 6) a member representing share registries; 7) a member representing payment system service providers; 8) a member representing custodial service providers; 9) a member representing the funds management industry; 10) a member representing the superannuation industry; 11) a member representing listed companies; 12) a non-executive member of the Boards of ASX Clear and ASX Settlement (Forum Chair); and a non-executive member of the Board of ASX Limited.		Association (AFMA) member; 4) an Stockbrokers Association of Australia (SAA) member; 5) a system vendor member; 6) a share registry member; 7) a payment system service provider member; 8) a custodial service provider member; 9) a funds management industry member; 10) a superannuation industry member; 11) a listed company member; 12) a non-executive director (NED) from ASX Clear (ASXCL) and ASX Settlement (ASXS) and that the Director is the Forum Chair; and 13) a NED from the ASX Limited Board.	9) a representative from the funds management industry 10) a representative from the superannuation industry 11) a representative from a listed company 12) a NED of the Boards of ASXCL and ASXS 13) a NED of the ASX Limited Board. It is noted that for the first Forum meeting held on 2 October 2013 the NED of the Boards of ASXCL and ASXS was not the Forum Chair. The ASX Limited MD & CEO, who is an executive director on the Boards of ASXCL and ASXS, was the Forum Chair. The NED of the Boards of ASXCL and ASXS (who is also the Chair of ASXCL and ASXS) and the NED of ASX Limited both attended the Forum meeting on 2 October 2013. The NED of the ASX Limited Board subsequently (in November 2013) joined the Boards of ASXCL and ASXS and became the Forum Chair.
(c) ASX will invite users to nominate representatives as part of the selection process for appointment to the Forum.	Performed by PwC	Examine the process for nominating Forum members to check that users were invited to nominate representatives.	The ASX Limited published a Media Release on 10 April 2013 to announce the release of the draft Code. This Media Release is available on the ASX Limited website (http://www.asx.com.au/about/media-releases.htm). This Media Release included a link to the consultation paper on the draft Code. Paragraph 23 of the consultation paper: "ASX is inviting users to nominate representatives for the Forum." In addition, users of clearing & settlement services were invited to attend presentations held in Sydney and Melbourne to brief users on the Code of Practice and Forum. We obtained copies of the presentation, emails inviting users to attend, and a list of attendees to the presentations.



Code Obligation	Scope	Procedure	Findings
(d) ASX will consult users on the nominees for the Forum to inform the selection process.	Performed by PwC	As per section 2.3(c) above.	As per section 2.3(c) above.
(e) ASX will appoint members to the Forum for an initial 2 year term, subject to continued employment with the organisation by which they were nominated.	Reliance on IA	Check that all Forum members have been appointed for two years and are current employees of the respective organisations.	<p>It is noted on the Forum website (section – The Forum / Forum Membership) – <i>“The members listed below have been appointed to the Forum for a two year term, effective from 9 August 2013.”</i></p> <p>The two year term is noted in appointment letters sent by the ASX to Forum members. An appointment letter based on specific template was sent to each member of the Forum representing a user of clearing and settlement services (a slightly different letter was sent to all other members). An example of each type of letter was obtained, the "Terms of Appointment for the Forum" ("Attachment B" to the appointment letter) stated – <i>“Your term as member of the ASX Forum commences on 9 August 2013. Your term is for a period of two years, subject to continued employment by the organisation who nominated you.”</i></p>
(f) Before the expiry of a member’s term or in the event a member resigns, ASX will consult the user group represented by that retiring member regarding the appointment of a new representative member. It is expected that some members of the Forum will rotate so that the Forum will function as set out in clause 2.3(a).	Performed by PwC	<ol style="list-style-type: none"> i. Identify any Forum resignations during the period. ii. For resignations which occurred during the period, examine the process for nominating a replacement Forum member to confirm that the relevant user group was consulted regarding the appointment of a new representative member. 	<p>‘Members’ of the forum are considered be to the individual organisations, not the representatives. During the period no member organisation resigned from the Forum and no terms have expired.</p> <p>Through inquiry with management it is noted that three Forum representatives resigned from their member organisations – CommSec (representing Commonwealth Bank of Australia), Deutsche Bank AG, and Association of Superannuation Funds of Australia (ASFA) – thereby requiring replacement representatives to be appointed to the Forum.</p>



Code Obligation	Scope	Procedure	Findings
(g) ASX will appoint members to the Forum based on their skills and experience.	Reliance on IA	i. As per (b) and (c) above. ii. Identify the seniority of Forum members.	It is noted from procedures performed for section 2.3 (b) and (c) that Forum members are CEOs or equivalent.
(h) A member of the Forum cannot appoint a delegate or alternate without the prior approval of the Forum Chair.	Performed by PwC	i. Identify if there was any appointments of delegates or alternates during the period. ii. For delegate and alternate appointments check these had the prior approval of the Forum Chair.	<p>During the period there were 3 requests to appoint delegate for Forum meetings – 2 requests for the 2 October 2013 meeting, and 1 request for the 2 April 2014 meeting.</p> <p>For one of the requests relating to the 2 October 2013 meeting, the Forum member actually ended up attending by phone rather than sending a delegate.</p> <p>For the other request relating to the 2 October 2013 meeting, no written confirmation of the prior approval from the Forum Chair was available. It is noted the alternate was included in the list of attendees in the Forum meeting agenda and in the minutes. The agenda was circulated to all members, including the Forum Chair, on 20 September 2013 (8 business days before the meeting) and the minutes were signed by the Forum Chair on 1 November 2013.</p> <p>For the request relating to the 2 April 2014 meeting, no written confirmation of the prior approval from the Forum Chair was available.</p> <p>Through inquiries with management it is noted that a meeting took place between the Forum Chair and Forum Secretary approximately 1 week prior to the Forum meeting agenda being circulated. This meeting was held to discuss the upcoming Forum meeting, agenda and papers, and other administrative matters (including proposed delegates or alternates).</p>



Code Obligation	Scope	Procedure	Findings
			It is further noted the alternate was included in the list of attendees in the Forum meeting agenda and in the minutes. The agenda was circulated to all members, including the Forum Chair, on 20 March 2014 (9 business days before the meeting) and the minutes were signed by the Forum Chair on 13 May 2014.
2.4 Operation of the Forum			
(a) The Forum will be chaired by a member of the Boards of ASX Clear and ASX Settlement (Forum Chair).	Reliance on IA	Examine the Forum membership and check the Chair for each meeting is from the Boards of ASXCL and ASXS	Refer to the results outlined for section 2.3(b)(12). It should be noted that section 2.4(a) of the Code only requires the Forum Chair to be a member of the Boards of ASXCL and ASXS. A member of the Boards of ASXCL and ASXS was the Forum chair for all meetings held during the period.
(b) The Forum will meet at least 3 times a year.	Performed by PwC	Examine the Forum meeting schedule and minutes to check the Forum has met and meetings are scheduled for 3 times in the year.	As noted for section 2.1(a) above, the first Forum meeting was held on 2 October 2013. Minutes of this meeting were sighted. The Forum's second and third meetings were held on 2 April 2014 and 23 June 2014 respectively. Minutes of these meetings were sighted.



Code Obligation	Scope	Procedure	Findings
<p>(c) The Forum will appoint and convene a business committee to provide business and operational input on the forward work program of the Forum. Forum members, ASX Clear and ASX Settlement will nominate members of the business committee. Members of the business committee do not need to be members of the Forum. The business committee will report to the Forum. Business committee meetings will be held ahead of meetings of the Forum.</p>	<p>Reliance on IA</p>	<p>i. Examine Forum minutes and / or other records for evidence that a Business Committee has been appointed. ii. Identify whether nominations for Business Committee members came from Forum members, ASXCL and ASXS. iii. Examine the committee meeting schedule and / or minutes to confirm it meets prior to each Forum meeting. iv. Review a sample of Forum meeting minutes to check the Business Committee provided a report to the Forum.</p>	<p>i. Through inspection of the first Forum meeting signed minutes (Agenda Item 4A) noted that a Business Committee had been appointed. The Chair asked members to confirm appointment of the Business Committee, and invited any comments or objections. No comments or objections were raised by Forum members. ii. Through inquiry with management it was noted that the Forum members representing users of clearing and settlement services were invited to nominate members of the business committee. Appropriate representatives of ASXCL and ASXS nominated the other members for the business committee. iii. As noted through inspection of meeting minutes, the Business Committee met for the first time on 16 August 2013, ahead of the Forum's first meeting on 2 October 2013. Subsequently the Business Committee met on 19 February 2014 (ahead of the Forum meeting on 2 April 2014) and 7 May 2014 (ahead of the Forum meeting on 23 June 2014), as noted through inspection of meeting minutes. As such, the Business Committee has met before each Forum meeting during the period. iv. For a sample of 1 Forum meeting (the 2 October 2013 meeting) through inspection of the Forum agenda papers it was noted that the Business Committee had provided a report to the Forum (Agenda Item 4a – Appendix B).</p>



Code Obligation	Scope	Procedure	Findings
<p>(d) The Forum may appoint and convene technical committees to examine and provide advice in relation to particular issues as required. Members of the technical committees do not need to be members of the Forum. Technical committees will report to the Forum.</p>	<p>Re-performance of IA</p>	<ul style="list-style-type: none"> i. Examine Forum minutes and / or other records for evidence that any technical committees have been appointed. ii. Identify whether the technical committee was appointed by the Forum. iii. Examine a sample of Forum meeting minutes to check if technical committee(s) has/have provided a report to the Forum. 	<p>We have re-performed the work performed by ASX Internal Audit and noted the findings below:</p> <ul style="list-style-type: none"> i. As noted through inspection of the 16 August 2013 Business Committee meeting minutes, a technical committee was appointed to consider global messaging standards (Agenda Item 3B and 4). Through inspection of the 2 October 2013 Forum meeting minutes it was noted that the Forum was advised at this meeting of the appointment of the technical committee (Agenda Item 4A). ii. Through inquiry with ASX management the technical committee was actually recommended by the member organisations of the Business Committee. There was no formal process of appointment via letters. iii. Through inquiry with ASX management it is noted that reporting from the technical committee is reported to the Forum via the Business Committee. Through inspection of the 19 February 2014 Business Committee meeting minutes it is noted the ASX GM of Clearing and Settlement Technology updated the Business Committee on <i>“the key matters discussed at the 7 February 2014 Technical Committee meeting”</i>. <p>It is further noted through inspection of the April 2014 Forum meeting agenda pack (Agenda Item 3D) a paper was provided to Forum members. Through inspection of the signed Forum meeting minutes for the 2 April 2014 it is noted that the ASX Group Executive of Operations presented to this paper in his capacity as co-chair of the technical committee.</p>



Code Obligation	Scope	Procedure	Findings
<p>(e) ASX will provide facilities and services for the effective administration and functioning of the Forum. The Forum Chair may invite ASX management to attend meetings of the Forum.</p>	<p>Performed by PwC</p>	<p>i. Inquire with management in regards to the administration and facilities available to the Forum. ii. Examine if the Forum Chair invited ASX management to attend meetings of the Forum.</p>	<p>i. Through inspection of the Forum website it is noted that all Forum and Business Committee meetings are held at ASX Limited, 20 Bridge Street, Sydney NSW 2000. It is further noted through examination of the Forum meeting minutes Forum and Business Committee meetings were held on level 1 at 20 Bridge Street, ASX's client meeting room floor.</p> <p>Through inquiry with ASX management it is noted that an ASX employee is the Forum Secretary, who has the responsibility for agendas, minutes and other administrative matters in regards to the Forum.</p> <p>ii. Through examination of the Forum meeting minutes (2 October 2013, 2 April 2014, and 23 June 2014) it is noted that ASX management were in attendance for either all and select agenda items for these meetings.</p> <p>There is no formal invitation process for ASX management to attend the Forum. There is standing invite for ASX management to attend the Forum; however they can address the Forum meeting when invited by the Forum Chair.</p>
<p>(f) Agendas will be set by the Forum Chair in consultation with Forum members. The Forum Chair will circulate a draft agenda prior to the Forum meeting to provide Forum members with the opportunity to contribute to the agenda setting process.</p>	<p>Reliance on IA</p>	<p>i. Inquire in regards to the agenda setting process and examine how agenda items were agreed for each meeting (e.g. correspondence from / to Forum members). ii. Check the draft agendas were circulated.</p>	<p>i. Through inquiry with ASX management it is noted that each Forum agenda is set around the forward work program. The Forum has input to the forward work program.</p> <p>A draft meeting agenda is circulated to Forum members in advance of each meeting to provide opportunity to provide comments.</p> <p>ii. For the Forum meetings held on the 2 October 2013 and 2</p>



Code Obligation	Scope	Procedure	Findings
			April 2014 evidence (in the form of sent emails) was obtained supporting the distribution of draft agendas to Forum members prior to the meetings.
(g) Minutes of meetings of the Forum will be kept and approved by the Forum Chair. The Forum Chair will circulate draft meeting minutes following Forum meetings to provide Forum members with the opportunity to comment on the meeting minutes.	Reliance on IA	<ul style="list-style-type: none"> i. For a sample of finalised minutes from Forum meetings and check they were signed. ii. For a sample of draft minutes from Forum meetings, check they were distributed and feedback was considered. 	<ul style="list-style-type: none"> i. For the 2 October 2013 Forum meeting, it noted that the finalised minutes on the Forum website were signed by the acting Chair. ii. The draft minutes (and Forum Report –relevant for section 2.4(j)) from the 2 October 2013 meeting were sent to all members of the Forum on 22 October 2013. No feedback was received.
(h) ASX will publish all agendas and minutes of the Forum on the ASX website. Agendas will be published 1 week prior to the relevant Forum meeting and minutes of the Forum will be published as soon as practicable after they have been provided to the Boards of ASX Clear and ASX Settlement.	Reliance on IA	<ul style="list-style-type: none"> i. Check the ASX website for agendas and meeting minutes of every meeting. ii. Check that the agendas were published at least a week prior to each meeting. iii. Check minutes were published shortly after being provided to the Boards of ASXCL and ASXS. 	<ul style="list-style-type: none"> i. The meeting agenda and signed minutes for 2 October 2013 and 2 April 2014 Forum meetings are included on the Forum website. The meeting agenda for 23 June 2013 is also included on the website, with its meeting minutes expected to be signed on 12 August 2014. ii. The agenda for 2 October 2013 Forum meeting was uploaded to the Forum website on 26 September 2013 (6 days prior to the meeting, rather than the required 7 days). The agenda for the Forum meeting on the 2 April 2014 was published on 26 March 2014 (one week prior to the meeting). iii. The minutes for the 2 October 2013 Forum meeting were published on the Forum website on 13 November 2013, which was the same day that they were provided to the Boards of ASXCL and ASXS (the date of the ASXCL and ASXS Boards meeting).



Code Obligation	Scope	Procedure	Findings
<p>(i) The Forum Chair will prepare a written report on the key issues discussed and any recommendations made by the Forum for inclusion in the Board papers for the next meetings of the Boards of ASX Clear and ASX Settlement. These reports will be published on the ASX website as soon as practicable after they have been provided to the Boards of ASX Clear and ASX Settlement.</p>	<p>Reliance on IA</p>	<p>i. Check a sample of written reports to test that they contain the key issues discussed and any recommendations made by the Forum.</p> <p>ii. Check the agenda items for a sample of meetings of the Boards of ASXCL and ASXS to confirm that the Forum Chair provided such reports.</p> <p>iii. Check the reports from the Forum Chair were published on the ASX website shortly after being provided to the Boards.</p>	<p>The written report issued from the 2 October 2013 Forum meeting was selected for the sample.</p> <p>i. It is noted that a written report from the 2 October 2013 Forum meeting is available on the Forum website. It contains a brief summary of the key matters documented in the minutes as having been discussed at the 2 October 2013 Forum meeting – (1) adoption of Charter, (2) management accounts, (3) performance of clearing and settlement services, (4) forward work program, (5) appointment of business committee, (6) benchmarking report, and (7) regulatory developments.</p> <p>The report is consistent with the information in the last section of the minutes summarised for inclusion in the report.</p> <p>ii. Through inspection of the ASXCL & ASXS Boards meeting agenda it was noted that the report from the 2 October 2013 Forum meeting was included.</p> <p>iii. The report to the 2 October 2013 Forum meeting was uploaded to the Forum website on the same day as the ASXCL & ASXS Boards meeting on 13 November 2013.</p>
<p>(j) The Forum Chair will circulate a draft of the report to Forum members.</p>	<p>Reliance on IA</p>	<p>For a sample of reports, examine the correspondence to check the draft report was circulated.</p>	<p>The draft Forum report (and minutes, as noted in section 2.4(g)) from the 2 October 2013 meeting were sent to all members of the Forum on 22 October 2013. No feedback was received.</p>



Code Obligation	Scope	Procedure	Findings
<p>(k) The Boards of ASX Clear and ASX Settlement will give due consideration to any material matters raised by, or recommendations of, the Forum and liaise with the Forum as appropriate.</p>	<p>Reliance on IA</p>	<p>i. Identify any material matters or recommendations in the report from the Forum.</p> <p>ii. For a sample of the reports from the Boards of ASXCL and ASXS to the Forum and ASXCL and ASXS meeting minutes, check they gave due consideration to any material matters or recommendations raised in the Forum reports.</p>	<p>Refer to section 2.4(i) above for the 7 key matters covered in the Forum report; no "recommendations" were specifically made.</p> <p>The letter/report from the Chair of the Boards of ASXCL and ASXS in response to the report from the 2 October 2013 Forum meeting contains comments on the forward work program, the benchmarking report, business committee and regulatory developments.</p> <p>The covering Board paper for the meeting of the Boards of ASXCL and ASXS on 13 November 2013 notes that "The Boards must give due consideration to any material matters raised by, or recommendations of, the Forum and liaise with the Forum as appropriate". The attachments to the Board paper included the Forum report, full meeting papers for and minutes of the 2 October 2013 Forum meeting, hence all directors of the Boards of ASXCL and ASXS received the details of all matters discussed by the Forum.</p> <p>The minutes of the ASXCL & ASXS Boards meeting record that the MD & CEO (who Chaired the Forum meeting) reported to the Boards that "other than the Forum's forward work program... no other material matters or recommendations requiring a response from the Boards were raised". The resolution at the end of the agenda item in the minutes "NOTED the minutes and report from the 2 October 2013 Forum meeting".</p>
<p>(l) The Forum Chair will report to the next Forum meeting on the outcome of discussions of the Boards of ASX Clear and ASX Settlement relevant to any recommendations made by the Forum. The Forum Chair</p>	<p>Performed by PwC</p>	<p>Examine a sample of the Forum minutes for evidence of discussion of the Boards responses to Forum reporting.</p>	<p>From inspection of the agenda for the 2 April 2014 Forum meeting it is noted that Agenda Item 7a covered the "Forum Chair report on the Boards of ASX Clear and ASX Settlement's consideration of initiatives prioritised by the Forum".</p>



Code Obligation	Scope	Procedure	Findings
<p>may also report on other issues of interest to the Forum.</p>			<p>It is further noted the agenda papers for the 2 April 2014 Forum meeting included a letter from the Chair of the Boards of ASXCL and ASXS (dated 13 November 2013) responding to the report from the 2 October 2013 Forum meeting.</p> <p>From inspection of the 2 April 2014 Forum meeting minutes it is noted the Forum Chair addressed the meeting on the matter and invited the Chairman of the Boards of ASXCL and ASXS to speak to the agenda papers. The Forum Chair invited questions and comments, but none were received.</p> <p>Noted from the minutes of the 2 April 2014 Forum meeting minutes no material matters or recommendations were noted to be raised with the Boards of ASXCL and ASXS. From examination of the 23 June 2014 Forum meeting agenda, no Agenda Item was noted covering the Boards of ASXCL and ASXS consideration of initiatives prioritised by the Forum.</p>
<p>(m) The Boards of ASX Clear and ASX Settlement will jointly provide a written response to the report prepared by the Forum Chair to be provided to the Forum which articulates:</p> <ol style="list-style-type: none"> 1) the response to any material matters raised by the Forum 2) the recommendations that are being followed 3) the recommendations that are not being followed 4) the reasons for these decisions. 	<p>Reliance on IA</p>	<p>For the material matters and recommendations identified from section 2 (k), examine a sample of the reports from the Boards of ASXCL and ASXS to the Forum to check they responded to any material matters raised in the Forum reports, along with the decisions relating to any recommendations and reasons behind the decisions.</p>	<p>As noted for section 2.4(k) above, the letter from the Chair of the Boards of ASXCL and ASXS in response to the report from the 2 October 2013 Forum meeting contains comments on the forward work program, the benchmarking report, business committee and regulatory developments.</p> <p>It is noted that the Forum did not make any recommendations at the 2 October 2013 meeting which required the Boards of ASX Clear and ASX Settlement to provide a response.</p>



Code Obligation	Scope	Procedure	Findings
Written responses from ASX Clear and ASX Settlement to the Forum will be published on the ASX website as soon as practicable after they have been provided to the Forum.	Reliance on IA	i. Check the Boards response to Forum reports is available on the ASX website. ii. Check timing was appropriate.	The response from ASXCL and ASXS to the report from the 2 October 2013 Forum meeting was uploaded to the website on 13 November 2013, which was the same day as the letter was signed by the Chairman of ASXCL and ASXS.
2.5 Commitment to Broad User Consultation			
(a) In addition to the Forum, ASX Clear and ASX Settlement will continue to provide other mechanisms for user engagement and consultation.	Performed by PwC	Determine what other mechanisms exist for user engagement and consultation.	Mechanisms for user engagement and consultation provided by ASXCL and ASXS include consultation papers, working committees and regular meetings between users and management from ASXCL and ASXS (including BD and Risk).
(b) Any interested party may provide information to ASX Clear and ASX Settlement in respect of the development of clearing and settlement services and infrastructure at any time (on a collective or confidential basis). This information may be provided by sending a written submission to ASX Clear and ASX Settlement addressed to the attention of the Forum Chair. Relevant contact details will be placed on the ASX website.	Re-performance of IA	Check current contact details for the Forum Chair are on the website.	<p>From our review of ASX Internal Audit's work it was noted based on their testing performed on 9 April 2014 the Forum website included a "Contact the Forum Chair" page with a link to the Forum Chair's email address: "<i>Communications to the Forum Chair can be emailed to: forum.chair@asx.com.au</i>".</p> <p>On an attempt to send an email to the Forum Chair email address outlined above an error message "<i>The recipient's e-mail address was not found in the recipient's e-mail system</i>" was received.</p> <p>It was established by that the correct address was forumchair@asx.com.au (without the dot between words). When Internal Audit viewed the website on 10 April 2014 the email address had been updated.</p> <p>Internal Audit forwarded the original test email to the correct address and confirmed the receipt of the email.</p>



Code Obligation	Scope	Procedure	Findings
			<p>At our date of re-performance of ASX Internal Audit's work on 15 July 2014, it was noted that the "Contact the Forum Chair" page included the corrected email address to the Forum Chair – forumchair@asx.com.au.</p> <p>We sent a test email to the email address outlined above and obtained a confirmation email from management (from the email address outlined above) that our email had been received.</p>
(c) The Forum Chair will consider submissions provided by interested parties when preparing reports to be provided to the Boards of ASX Clear and ASX Settlement.	Performed by PwC	<ol style="list-style-type: none"> i. Identify any submissions received during the period. ii. Read a sample of the submissions and check for inclusion in reports from the Forum Chair where appropriate. 	Through inquiry with management it is noted that no submissions were received by the Forum Chair at the date of our procedures on 30 July 2014.
3. Pricing			
3.1 Transparent Pricing			
(a) ASX will publish fee schedules, in a clear and accessible form, for all clearing and settlement services covered by this Code. The published schedules will include a brief description of each service.	Re-performance of IA	<ol style="list-style-type: none"> i. Examine the website to confirm that fee schedules for clearing and settlement services covered by the code have been published. ii. Identify the fees, terms, conditions and eligibility criteria, rebates, revenue-sharing arrangements and discounts applicable to each service. iii. Examine the published fee schedules to check they contain a brief description of each service and, for part (b), applicable terms, conditions and eligibility criteria, of 	<p>We have re-performed the work performed by Internal Audit on the 22 July 2014 and noted the findings outlined below:</p> <ol style="list-style-type: none"> i. Through inspection of the ASX website (http://www.asx.com.au/about/asx-fees.htm) the following fee schedules applicable to Cash Market clearing and settlement services were noted: <ul style="list-style-type: none"> • Cash Market Clearing Fees Schedule of Fees • Cash Market Settlement Fees Schedule of Fees • Trade Acceptance Service (TAS) pricing and service term options – fees for Approved Market Operators (AMOs) • Settlement Facilitation Service Agreement – fees for



Code Obligation	Scope	Procedure	Findings
		<p>any rebates, revenue-sharing arrangements and discounts applicable to each service.</p>	<p>Approved Listing Market Operators (ALMOs) (page 20 – Schedule 4)</p> <p>Further, through inquiry with management we confirmed that the fee schedules listed above are the only fees which are relevant to the Code.</p> <p>ii. Inquired and confirmed with management that all cash market fees, terms, conditions and eligibility criteria, rebates, revenue-sharing arrangements and discounts applicable to:</p> <ul style="list-style-type: none"> • <u>Clearing Services</u>: Are included in the Cash Market Clearing Fees Schedule of Fees or the TAS pricing and service term options, and • <u>Settlement Services</u>: Are included in the Cash Market Settlement Fees Schedule of Fees or the fee schedule in the Settlement Facilitation Service Agreement. <p>It is noted through those inquiries that no rebates or discounts are applicable for Cash Market Clearing Services, only an annual revenue-sharing scheme.</p> <p>iii. Through inspection of the four fee schedules outlined above, it is noted that they include a brief description of each service provided.</p> <p>Each fee schedule also includes details of terms, conditions and eligibility criteria, rebates, revenue-sharing arrangements and discounts applicable to each service.</p> <p>The findings outlined above are consistent with the work performed by ASX Internal Audit.</p>



Code Obligation	Scope	Procedure	Findings
<p>(b) The published fee schedules will include details, including applicable terms, conditions and eligibility criteria, of any rebates, revenue-sharing arrangements and discounts applicable to each service.</p>	<p>Re-performance of IA</p>	<p>Refer to section 3.1(a) above.</p>	<p>Refer to section 3.1(a) above.</p>
<p>(c) ASX will make available worked examples, tools and other information as appropriate which will assist users to anticipate the price they will have to pay for use of the services. The worked examples, tools and other information will enable users to be able to assess:</p> <ol style="list-style-type: none"> 1) the expected cost impacts of any pricing changes; 2) the expected cost impacts associated with new products and initiatives; and 3) the impact of discounts, rebates and revenue-sharing arrangements for different user groups and different activity profiles 	<p>Performed by PwC</p>	<ol style="list-style-type: none"> i. For user groups and different activity profiles, check the website for worked examples, tools and other information relating to pricing changes, new products and initiatives and / or discounts, rebates and revenue-sharing arrangements. ii. Identify any pricing changes, new products and initiatives and / or discounts, rebates and revenue-sharing arrangements during the period. 	<ol style="list-style-type: none"> i. Through inspection of the ASX website it is noted that worked examples for fees for clearing and settlement services are included on the website at: <ul style="list-style-type: none"> • Clearing: http://www.asx.com.au/cs/clearing-pricing.htm, and • Settlement: http://www.asx.com.au/cs/settlement-pricing.htm <p>It was also noted that the website outlined the statement that <i>“If ASX changes cash market clearing and/or settlement fees, participants will be provided with information to assist in their analysis of the impact of clearing and settlement price changes on their total service costs. In the event that fees are changed, participants will be notified individually of the pricing changes and the implications for their businesses.”</i></p> ii. Through inquiry with management noted there have been no pricing changes, new products and initiatives and/or discounts, rebates and revenue-sharing arrangements relating to cash market clearing and settlement services during the period. <p>This is consistent with the fact that the current Cash Market Clearing and Settlement Fees Schedule of Fees dates pre-9 August 2013 (commencement of the Code).</p>



Code Obligation	Scope	Procedure	Findings
			<p>As such no new worked examples have been included on the ASX website. Through inquiry with management it was noted that it is management's intention of add to the worked examples on the website when a price change or new product/initiative are introduced.</p>
(d) ASX will publish all information on the ASX website.	Re-performance of IA	Check that relevant fee information is published on the website.	<p>As noted in sections 3.1(a), (b) and (c), the relevant fee schedules with all fees, rebates, terms and conditions, and the worked examples are on the ASX website.</p> <p>(Main ASX website: http://www.asx.com.au/about/asx-fees.htm). (Forum website: Clearing: http://www.asx.com.au/cs/clearing-pricing.htm). (Forum website: Settlement: http://www.asx.com.au/cs/settlement-pricing.htm).</p>
3.2 Published Management Accounts for Cash Equities			
(a) ASX will publish management accounts in respect of the clearing and settlement of cash equities in Australia. ASX will publish these accounts on an annual basis, together with ASX's full year financial results, and make them available on the ASX website.	Performed by PwC	Check that the annual clearing and settlement cash equities management accounts are published on the ASX website, together with the ASX's full year financial results.	<p>Although the Code only commenced operation on 9 August 2013, it is noted that the ASX prepared and published clearing and settlement cash equities management accounts for the year ended 30 June 2013.</p> <p>From review of the Forum website it is also noted that management accounts for the half-year ended 31 December 2013 have also been prepared and published.</p> <p>These management accounts are included on the Forum website (http://www.asx.com.au/cs/financial-statements.htm).</p>



Code Obligation	Scope	Procedure	Findings
			<p>For the current year management accounts, given our final report is issued to the Boards of ASX Clear and ASX Settlement on 12 August 2014, we are unable to validate if the FY2014 management accounts will be (1) published together with ASX's full year financial results, and (2) make available on the ASX website.</p> <p>However through inquiry with management it is noted it is their intention to publish the management accounts together with ASX's full year financial results and include them on the ASX website.</p>
<p>(b) In the management accounts, ASX will allocate directly attributable and common shared costs for cash equity clearing and settlement as between ASX Clear and ASX Settlement. ASX will allocate costs for the clearing and settlement functions on the following basis:</p> <ol style="list-style-type: none"> 1) the directly attributable expenditure undertaken in respect of relevant clearing and settlement functions will be the increase in total expenditure which results from that function 2) the expenditure on shared assets and indirect costs will be allocated on the basis of identified and appropriate drivers of the expenditure related to the respective clearing and settlement functions. 	<p>Performed by PwC</p>	<p>Obtain the management accounts for clearing and settlement of cash equities and check the accounting policies for cost allocation are consistent with the Code.</p>	<p>We noted that we are separately engaged by the ASX to provide an audit opinion over the management accounts prepared for clearing and settlement of cash equities.</p> <p>It is noted that the management accounts include an accounting policy note which outlines the cost allocation methodology used for the allocation of both directly attributable and indirect expenses. As required by the Code, indirect costs are allocated to the activities of clearing and settlement for cash equities based on appropriate drivers for each major expense category.</p>
<p>(c) ASX will establish a policy which describes the methodology used for apportioning directly attributable and indirect or common shared costs. This policy will be reflected in the published management accounts.</p>	<p>Performed by PwC</p>	<p>Refer to section 3.2(b).</p>	<p>Refer to section 3.2(b).</p>



Code Obligation	Scope	Procedure	Findings
(d) The published management accounts will be subject to review by an external auditor.	Performed by PwC	Check an external auditor has been engaged to perform a review over the management accounts.	We confirm that we have been engaged by the ASX to complete an audit over the management accounts for the (i) cash equities clearing, and (ii) cash equities settlement operations in Australia for the year ended 30 June 2014.
3.3 Non-discriminatory and Transfer Pricing			
(a) Non-discriminatory pricing: ASX is committed to providing non-discriminatory pricing to all customers and potential users. The prices for clearing and settlement services provided by ASX Clear and ASX Settlement, including rebates, revenue-sharing arrangements and discounts applicable to the use of these services, will not discriminate between ASX-affiliated and other customers or potential users of clearing and settlement services.	Performed by PwC	i. Identify the current clearing and settlement customers, including ASX-affiliated customers.	<p>The list of ASXCL and ASXS participants was obtained from the ASX website (https://www.asxonline.com/index.html). It was noted that a revised list of participants was released on 12 March 2014.</p> <p>There are –</p> <ul style="list-style-type: none"> • 36 entities that are participants of both ASXCL and ASXS; • 46 participants who are participants solely of ASXS; and • 1 participant of ASXS which is also a ALMOs. <p>ASX currently has 1 AMO and 3 ALMOs as customers. There is one ASX-affiliated user of cash market clearing and settlement services – ASX Limited as the holder of the market licence to operate the cash market.</p>
		ii. Obtain a list of all cash market clearing and settlement billing for 2 months and ensure that all users have been billed consistently and / or differences can be justified.	<p>Participants:</p> <p>A random sample of 2 months of billing data from CHESS was selected from the period 9 August 2013 to 30 June 2014.</p> <p>For the sampled months, for each product code applicable to cash market clearing and settlement fees we checked that each ASXCL and ASXS participant was billed based on the same rate per unit,</p>



Code Obligation	Scope	Procedure	Findings
		<p>iii. Obtain a list of all annual cash market clearing and settlement billing for the current period and check that all users have been billed consistently and / or differences can be justified.</p>	<p>as per the Cash Market Clearing and Settlement Schedule of Fees. All participants were charged a consistent rate per unit.</p> <p>In addition, for the 2 months selected the CHESSE fee data for 5 participants was reconciled to the invoices issued. No exceptions noted.</p> <p>AMOs: The TAS agreement only includes annual and ad hoc fees to be charged to AMOs (no monthly fees). No ad hoc fees were identified during the period for the AMO.</p> <p>ALMOs: The Settlement Facilitation Service Agreement includes one-off/ad hoc fees and annual fees for ALMOs. Ad-hoc fees for 1 ALMO were identified for the period. The fees charged were checked to the fees listed in the Settlement Facilitation Service Agreement (Schedule 4 - Fee). The fees charged were consistent with the fees listed in the SFS agreement fee schedule.</p> <p>ASX-affiliated user: No monthly or ad hoc billing identified during the period for the ASX-affiliated user.</p> <p>Participants: It is noted that no annual fees are charged to participants for clearing and settlement services (as per the Cash Market Clearing and Settlement Schedule of Fees).</p> <p>Through inquiry with management it is noted that the revenue-sharing schemes with participants is annual. There are 2 schemes</p>



Code Obligation	Scope	Procedure	Findings
			<p>(one each for clearing and settlement), with the payment of revenue-sharing dependent on the ASX achieving a predetermined revenue growth rate each year. If the revenue growth rate is achieved for a particular year, 50% of the revenue above the predetermined revenue growth rate is returned to participants. The amount each participant receives is proportional to the fees they have paid during the year.</p> <p>AMOs & ASX-affiliated user: It is noted that the TAS (Legal Terms – pricing section) outlines that an annual service fee can be billed to users under the TAS.</p> <p>It is noted that ASX released a consultation paper on: "Clearing and Settlement Services for Approved Market Operators and Approved Listing Market Operators: Enhanced service levels and information handling standards" on the 23 January 2014. Through inspection of the ASX response to submissions obtained, it is noted that the ASX waived the annual fee charged for the TAS (website – http://www.asx.com.au/regulation/public-consultations.htm)</p> <p>As such, no annual fees noted.</p> <p>ALMOs: Through inspection of the Settlement Facilitation Service Agreement annual fees are charged to ALMOs. For each ALMO we obtained the annual invoices issued and checked the basis on the fee to the Settlement Facilitation Service Agreement (Schedule 4 – Fees). All ALMOs were charged annual fees on a consistent basis.</p>



Code Obligation	Scope	Procedure	Findings
(b) Transfer pricing: ASX Clear and ASX Settlement will charge all users, including ASX-affiliated entities, non-discriminatory prices for materially equivalent services.	Performed by PwC	Refer to section 3.3(a) above.	Refer to section 3.3(a) above.
3.4 Pricing Comparison			
(a) ASX Clear and ASX Settlement will annually commission from an independent consulting firm benchmarking of the scope of the clearing and settlement services that ASX Clear and ASX Settlement provide and the pricing and fees for those services compared to the clearing and settlement services and the pricing and fees for those services provided by facilities in other cash equity markets.	Performed by PwC	Check that the annual benchmarking study has been planned or performed by an independent consulting firm on an annual basis.	<p>It is noted that ASX engaged Oxera Consulting Limited to perform a 'Global cost benchmarking of clearing and settlement services' for the current period. Oxera is not a party related to the ASX Group.</p> <p>We sighted the signed engagement letter between Oxera Consulting Limited and the ASX for this benchmarking review.</p> <p>It is further noted the completed report was issued to the market (via a media release) on 23 June 2014.</p>
(b) ASX Clear and ASX Settlement will consult the Forum on the scope and methodology of the international price benchmarking prior to it being commissioned in accordance with clause 3.4(a).	Performed by PwC	Examine the minutes of the Forum meetings or correspondence to confirm that the Forum has been consulted on the scope of the benchmarking.	<p>Through inspection of the Forum's 2 October 2013 signed meeting minutes (Agenda Item 5) it is noted that the scope and methodology of the international benchmarking report was discussed with Forum members. Further, it was noted that an item was raised for the Business Committee to discuss the proposed scope of the report.</p> <p>Through inspection of the Business Committee signed 9 December 2013 meeting minutes (Agenda Item 3a) it was noted that discussion was held on the proposed scope and methodology for the international cost benchmarking to be commissioned.</p>



Code Obligation	Scope	Procedure	Findings
<p>(c) ASX Clear and ASX Settlement will provide a report containing the results of the comparison to the Forum and the Agencies, and will publish the report on the ASX website.</p>	<p>Performed by PwC</p>	<p>i. Check the Forum meeting minutes for reference to the content of the benchmarking report. ii. Obtain correspondence to check the report was also provided to the ACCC, ASIC, RBA and Treasury. iii. Check the report has been published on the ASX website.</p>	<p>i. Through inspection of the Forum meeting minutes on 23 June 2014 the result of the Oxera benchmarking report was presented to the Forum members.</p> <p>ii. It is noted that a copy of the final benchmarking report was sent (via email) to the Council of Financial Regulators (CFR) on 23 June 2014. It is noted that the CFR nominated a representative of the RBA to be ASX's contact point for matters relating to the Code.</p> <p>Through inquiries with management it is noted that the RBA secretariat will send all Code related documents to all relevant Agencies.</p> <p>iii. It is noted that that a copy of the final the Oxera benchmarking report is included on the ASX website (http://www.asx.com.au/cs/international-cost-comparisons.htm). The final report was released by a media announcement on 23 June 2014.</p>
<p>4. Access to clearing and settlement services</p>			
<p>4.1 Standard Access to Clearing and Settlement Services</p>			
<p>(a) ASX Clear and ASX Settlement will continue to publish on the ASX website transparent standard terms and conditions: 1) to become an ASX Clear or ASX Settlement participant pursuant to the ASX Clear and ASX Settlement operating rules</p>	<p>Performed by PwC</p>	<p>Examine the ASX website to check that ASXCL and ASXS have published standard terms and conditions: 1) to become an ASX Clear or ASX Settlement participant pursuant to</p>	<p>From inspection of the ASX website the following published documents have been noted: 1) Becoming a participant: "A Guide to Becoming an ASX Participant" (Forum website: http://www.asx.com.au/cs/equity-market-participants.htm)</p>



Code Obligation	Scope	Procedure	Findings
<p>2) for AMOs seeking access to TAS in order to facilitate the clearing and settlement for transactions effected through that AMO pursuant to the TAS Legal Terms</p> <p>3) for ALMOs to apply for the provision of settlement facilitation services, pursuant to the Settlement Facilitation Service Agreement.</p>		<p>the ASXCL and ASXS operating rules</p> <p>2) for AMOs seeking access to TAS in order to facilitate the clearing and settlement for transactions effected through that AMO pursuant to the TAS Legal Terms</p> <p>3) for ALMOs to apply for the provision of settlement facilitation services, pursuant to the Settlement Facilitation Service Agreement.</p>	<p>(ASX main website: http://www.asx.com.au/regulation/compliance/participants.htm)</p> <p>2) AMOs seeking access to TAS: "Legal terms for the provision of a trade acceptance service to Australian financial market licensees in respect of CHESSE-eligible ASX-quoted financial products" (Forum website: http://www.asx.com.au/cs/services-for-approved-market-operators.htm)</p> <p>3) ALMOs to apply for the provision of settlement facilitation services: "Settlement Facilitation Service Agreement" template (Forum website: http://www.asx.com.au/cs/services-for-approved-listing-market-operators.htm)</p>
<p>(b) Access to clearing and settlement services will be provided on a non-discriminatory basis. ASX Clear and ASX Settlement will not unreasonably prohibit, condition or limit, directly or indirectly, access by a person or company to clearing and settlement services.</p>	<p>Performed by PwC</p>	<p>i. Identify if any applications for access to clearing and settlement services has been prohibited, given with conditions or limited.</p> <p>ii. For a sample of such applications identified, examine the reason for the decision and check whether it is in accordance with the relevant rules.</p>	<p>Through inquiries with management it was noted that:</p> <ul style="list-style-type: none"> No applications for AMO or ALMO access to clearing and settlement services have been received during the period. All participant applications for access to clearing and settlement services during the period had been approved without any prohibitions, conditions or limitations.
<p>4.2 Service Level Agreements</p>			
<p>(a) ASX Clear and ASX Settlement will consult AMOs and ALMOs on their respective service level agreements under the TAS and the Settlement Facilitation Service with the objective of making those service level agreements consistent with the outcomes of a</p>	<p>Performed by PwC</p>	<p>i. Identify all AMOs and ALMOs.</p> <p>ii. Obtain correspondence to check that AMOs and ALMOs have been consulted on their respective service level agreements under the TAS and the Settlement Facilitation Service.</p>	<p>i. The following have been identified as AMOs and ALMOs:</p> <ul style="list-style-type: none"> AMOs: Through inquiry with management it is noted there is currently only 1 AMO – Chi-X.



Code Obligation	Scope	Procedure	Findings
<p>competitive market and ASX Clear and ASX Settlement's licence obligations.</p>			<ul style="list-style-type: none"> • ALMOs: Through inspection of the ASX website (http://www.asx.com.au/cs/services-for-approved-listing-market-operators.htm) the following ALMOs have been identified: <ol style="list-style-type: none"> 1) Asia Pacific Exchange Limited (APX) 2) National Stock Exchange of Australia Limited (NSX) 3) SIM Venture Securities Exchange Limited (SIM). ii. It is noted that the ASX sent (via email on 23 January 2013) to AMO or ALMOs the ASX consultation paper on – Clearing and Settlement Services for Approved Market Operators and Approved Listing Market Operators: Enhanced service levels and information handling standards. <p>This consultation paper is also included on the ASX website (http://www.asx.com.au/regulation/public-consultations.htm)</p> <p>It is noted that the consultation paper includes proposals to enhance the protection of confidential information received from AMOs and ALMOs. Through inquiries with management it is noted that proposed amendments from the consultation process have been completed and can into effect on the 1 July 2014.</p> <p>It is noted that submissions from Chi-X and APX to the consultation paper have been included on the ASX website (refer to link listed above). ASX's responses to these submissions have also been published on the website.</p>



Code Obligation	Scope	Procedure	Findings
<p>4.3 Responsiveness to Requests</p>			
<p>(a) ASX Clear and ASX Settlement will consider any request for clearing and settlement services by AMOs and ALMOs, including requests for changes to clearing and settlement services, in a timely manner.</p>	<p>Performed by PwC</p>	<p>Identify any request for clearing and settlement services by AMOs and ALMOs and check they were considered within the published target timeframes.</p>	<p>Through inquiries with management it was noted that during the period:</p> <ul style="list-style-type: none"> • 3 AMO requests had been received, and • 1 ALMO request had been received <p>AMO: Timeframes for the ASX to response to AMO requests are:</p> <ol style="list-style-type: none"> 1) Respond to a request for a change and provide a change request form within 3 business days, 2) Contact the requestor within 5 business days of receiving the completed change request form to arrange a meeting, and 3) Provide an initial response within 10 business days of the meeting. <p>For the 3 AMO requests received during the period, the ASX provided an initial response within the required 3 business day. It is noted that no change request form was provided to the AMO as their request was for consultation with the ASX.</p> <p>For 2 of the requests, change request forms were subsequently provided by the ASX after their consultation with the AMO. No completed change request forms were subsequently received.</p> <p>For the third request, the ASX subsequently advised the AMO (via a letter) that the request was deemed to be out of the scope of the TAS agreement. This letter was sent 7 business days after receipt of the initial request.</p>



Code Obligation	Scope	Procedure	Findings
			<p>ALMO: Timeframes for the ASX to response to ALMO requests are:</p> <ol style="list-style-type: none"> 1) Respond to a request for a change and provide a change request form within 3 business days, 2) Contact the requestor to arrange a workshop within 20 business days of receiving the completed change request form, 3) Provide a decision within 20 business days of the workshop. <p>For the 1 ALMO request received during the period, the ASX provided an initial response with 3 business days. It is noted that no change request form was provided to the ALMO as their request was for consultation with the ASX. On provision of the change request form by the ASX post consultation, no completed change request form was subsequently received.</p>
<p>(b) Where a request for change to clearing and / or settlement services under the TAS or Settlement Facilitation Service by an AMO or ALMO has been agreed by ASX Clear and/or ASX Settlement, ASX Clear and/or ASX Settlement will advise the requesting customer in writing the scope of any technical development required and any changes to ASX operating rules and procedures, together with the priority, indicative timeline and cost of implementing the change.</p>	<p>Performed by PwC</p>	<p>For a sample of any changes identified for (a) above, obtain correspondence to check that the scope of any technical development required and any changes to ASX operating rules and procedures, together with the priority, indicative timeline and cost of implementing the change were advised to the requesting customer.</p>	<p>Through inquiries with management it is noted that none of the requests received from AMOs or ALMOs during the period led to technical development or any changes to ASX’s operating rules.</p>



Code Obligation	Scope	Procedure	Findings
<p>(c) ASX Clear and ASX Settlement will publish protocols on the ASX website which set out target timeframes for responding to requests for services and dispute resolution processes for AMOs and ALMOs.</p>	<p>Performed by PwC</p>	<p>Check the ASX website for the protocols on:</p> <ol style="list-style-type: none"> i. responding to AMO and ALMO service requests, and ii. dispute resolution processes (including pre-access and post-access disputes). 	<p>From inspection of the ASX website (http://www.asx.com.au/cs/services-for-approved-market-operators.htm, http://www.asx.com.au/cs/services-for-approved-listing-market-operators.htm) it is noted that the following documents are included:</p> <ul style="list-style-type: none"> • "Procedures for Access Requests by Approved Market Operators" document. • "Procedures for Access Requests by Approved Listing Market Operators" document. <p>These documents outline timeframes for the ASX's response in relation to:</p> <ul style="list-style-type: none"> • AMO: New customer enquiries and requests for the enhancement or expansion of the TAS. • AMLO: New customer enquiries, new service enquiries, enquiries regarding potential enhancement to the Settlement Facilitation Service and operational matters. <p>It is noted dispute resolution processes are also detailed in the "Code of Practice for Clearing and Settlement of Cash Equities in Australia Access Protocols" document (http://www.asx.com.au/cs/code-practice.htm).</p>
<p>4.4 Dispute Resolution</p>			
<p>(a) Any dispute in relation to an application to become an ASX Clear or ASX Settlement participant, or, in relation to services provided to an ASX Clear or ASX Settlement participant, is governed by the ASX Clear and ASX Settlement operating rules as appropriate.</p>	<p>Performed by PwC</p>	<ol style="list-style-type: none"> i. Identify any disputes in relation to applications for access to clearing and settlement services. ii. For a sample of disputes, check they have been dealt with in accordance with the ASXCL and ASXS operating rules as appropriate. 	<p>Through inquiries with management no formal disputes were received by the ASX during the year in relation to applications for access to clearing and settlement services or services provided.</p>



Code Obligation	Scope	Procedure	Findings
<p>(b) Dispute resolution processes will apply to disputes:</p> <ol style="list-style-type: none"> 1) with AMOs and ALMOs which are seeking standard access to clearing and settlement services as governed by this Code (pre-access disputes) 2) with AMOs and ALMOs which are being provided with the clearing and settlement services governed by this Code (post-access disputes). 	Performed by PwC	<ol style="list-style-type: none"> i. Identify any disputes with AMOs and ALMOs seeking either standard access to clearing and settlement services, or in relation to current clearing and settlement services. ii. For a sample of disputes, check they have been dealt with in accordance with the ASXCL and ASXS operating rules as appropriate. 	<p>Through inquiries with management no formal disputes were received by the ASX during the period in relation to AMOs and ALMOs seeking either standard access to clearing and settlement services, or in relation to current clearing and settlement services.</p> <p>It is noted that the ASX has included on its website (http://www.asx.com.au/cs/code-practice.htm) pre-access and post-access dispute resolution handling protocols.</p>
<p>(c) The dispute resolution processes applying to pre-access disputes will be incorporated into the protocols described in clause 4.3(c).</p>	Performed by PwC	Check that the dispute resolution processes applying to pre-access disputes have been incorporated into the protocols described in clause 4.3(c).	As noted for section 4.3(c) above, pre-access dispute resolution processes are available on the ASX website.
<p>(d) The dispute resolution processes applying to pre-access disputes which will be incorporated into the protocols described in clause 4.3(c) will contain the following features:</p> <ol style="list-style-type: none"> 1) a procedure for parties to provide a written notice to ASX Clear and ASX Settlement which identifies the nature of the dispute 2) an obligation on all parties to negotiate in good faith to resolve disputes within a specified timeframe 3) a procedure to escalate any disputes which have not been resolved by negotiation to an independent arbitrator for a final binding decision. 	Performed by PwC	<p>Check that the dispute resolution processes applying to pre-access disputes in the protocols described in clause 4.3(c) contain:</p> <ol style="list-style-type: none"> 1) a procedure for parties to provide a written notice to ASX Clear and ASX Settlement which identifies the nature of the dispute 2) an obligation on all parties to negotiate in good faith to resolve disputes within a specified timeframe 3) a procedure to escalate any disputes which have not been resolved by negotiation to an independent arbitrator for a final binding decision. 	<p>Through inspection of the pre-access dispute resolution protocols included within the "Code of Practice for Clearing and Settlement of Cash Equities in Australia Access Protocols" document, the features required by the Code have been included on the following pages:</p> <ol style="list-style-type: none"> 1) Page 1 (section 6 & 7) 2) Page 2 (section 8 & 9) 3) Page 2 (section 9 & 10)
<p>(e) The dispute resolution processes applying to post-access disputes will be incorporated into the TAS Legal Terms and the Settlement Facilitation Service Agreement as appropriate.</p>	Performed by PwC	Check the TAS Legal Terms and SFS Agreement and determine if the post-access dispute resolution procedures have been incorporated as appropriate.	Through inspection of the TAS Legal Terms and SFS Agreement it is noted that post-access dispute resolution processes are included within these documents.



Code Obligation	Scope	Procedure	Findings
<p>5. Review</p> <p>(a) ASX will conduct an annual internal review regarding the operation of the Code, including with respect to:</p> <ol style="list-style-type: none"> 1) the effectiveness of the Forum in meeting the objectives set out in clause 2.2 2) ASX's compliance with the cost allocation principles described in clause 3.2 3) ASX's compliance with the access request protocols described in clause 4.3(c) relating to requests for access to clearing and settlement services 4) ASX's compliance with the operational standards described in clause 6(c) relating to the protection of competitively sensitive information acquired by ASX Clear and ASX Settlement in the course of providing the TAS and the settlement facilitation service 5) ASX's pricing to verify that there is no discrimination between ASX-affiliated entities and other users of clearing and settlement services. <p>The internal review will be completed and a written report based on the internal review will be published within 3 months following the end of each financial year. The report will be provided to the Boards of ASX Clear and ASX Settlement and the Forum promptly after the report's completion. ASX will publish the report on the ASX website.</p>	<p>Reliance on IA</p>	<p>Inspect the working papers of ASX Internal Audit and re-perform a sample of their work performed.</p>	<p>As outlined earlier in our report, due to the concurrent nature of the internal and independent external review we have placed reliance on a specific portion of Internal Audit's work performed.</p> <p>To evaluate whether the work of Internal Audit can be utilised for the purpose of our review we have re-performed a sample of the work performed by Internal Audit.</p> <p>The obligations of the Code which we have either placed reliance on Internal Audit or re-performed their work is clearly outlined within this report.</p> <p>Given our final report is to be issued to the Boards of ASX Clear and ASX Settlement on 12 August 2014, we are unable to validate at the time of this that a completed written report from ASX Internal Audit has been published on the ASX website within 3 months of the financial year end. Through inquiry with management it is noted their intention is to publish the completed Internal Audit report on the ASX website on the 21 August 2014.</p>



Code Obligation	Scope	Procedure	Findings
<p>(b) Additionally, ASX will engage an independent external auditor to conduct an annual review and prepare a written report regarding the operation of the Code, including with respect to:</p> <ol style="list-style-type: none"> 1) ASX's compliance with the cost allocation principles described in clause 3.2 2) ASX's compliance with the access request protocols described in clause 4.3(c) relating to requests for access to clearing and settlement services; 3) ASX's compliance with the operational standards described in clause 6(c) relating to the protection of competitively sensitive information acquired by ASX Clear and ASX Settlement in the course of providing the TAS and the settlement facilitation service; 4) ASX's pricing to verify that there is no discrimination between ASX-affiliated entities and other users of clearing and settlement services. <p>The external review will be completed and the external auditor's report will be published within 3 months following the end of each financial year. The external auditor's report will be provided to the Boards of ASX Clear and ASX Settlement and the Forum promptly after the report's completion. ASX will publish the report on the ASX website.</p>	<p>Performed by PwC</p>	<p>The procedures performed over each obligation in the Code are outlined within this report.</p>	<p>We confirm that we have been engaged by the ASX to complete a review of the regarding the operation of the Code for the period ended 30 June 2014.</p> <p>This report outlines the results of the procedures performed over each applicable obligation with the Code.</p> <p>Given our final report is issued to the Boards of ASX Clear and ASX Settlement on 12 August 2014, we are unable to validate if our completed written report has been published on the ASX website within 3 months of the financial year end. Through inquiry with management it is noted their intention is to publish our completed report on the ASX website on the 21 August 2014.</p>



Code Obligation	Scope	Procedure	Findings
<p>(c) Users of clearing and settlement services will be consulted as part of the reviews.</p>	<p>Performed by PwC</p>	<p>Request feedback from members of the Forum on the operation of the Code by the ASX. This includes feedback on –</p> <ul style="list-style-type: none"> i. Effectiveness of the Forum, ii. ASX's mechanisms for user engagement and consultation, iii. ASX's responsiveness to requests, and iv. Administration of the Code. 	<p>Members of the Forum were requested to provide feedback on the operation of the Code by the ASX through a 'feedback form'. This feedback form was emailed to Forum members by PwC on 15 July 2014. The request for feedback was performed in conjunction with ASX Internal Audit as part of their review.</p> <p>The form requested Forum members provide feedback on:</p> <ul style="list-style-type: none"> i. Effectiveness of the Forum, ii. ASX's mechanisms for user engagement and consultation, iii. ASX's responsiveness to requests, and iv. Administration of the Code. <p>Feedback obtained from Forum members is attached in Appendix B of this report.</p>
<p>(d) ASX Clear and ASX Settlement will provide the Agencies with such information as is reasonably requested by the Agencies to monitor ASX Clear and ASX Settlement's ongoing compliance with the Code.</p>	<p>Performed by PwC</p>	<ul style="list-style-type: none"> i. Identify any requests from the ACCC, ASIC, RBA or Treasury (the 'Agencies' as defined in the glossary to the Code) relating to compliance with the Code. ii. For a sample of requests check that the information requested was provided. 	<p>Through inquiry with management it is noted that no requests have been received from ACCC, ASIC, RBA or Treasury in relation to compliance with the Code.</p> <p>Further, we examined the communication log with regulatory agencies that is maintained by the ASX and noted no communications from ACCC, ASIC, RBA or Treasury in relation to compliance with the Code.</p>
<p>(e) ASX will maintain procedures for users to provide any comments or complaints in respect of the operation of this Code. ASX will publish protocols on the ASX website for responding to any comments or complaints.</p>	<p>Reliance on IA</p>	<p>Examine the ASX website to check that procedures and protocols for comments or complaints relating to the Code have been published.</p>	<p>From examination of the Forum website ("Code of Practice" section) it is noted a link to the "Comments and Complaints Protocol for the Code of Practice" is included.</p> <p>These protocols set out the how users may provide comments or complaints in respect of the Code, and timeframes in which the responses will be provided.</p>



Code Obligation	Scope	Procedure	Findings
(f) Comments or complaints should be addressed to the attention of the office of the Chief Executive Officer.	Reliance on IA	Examine the procedures and protocols for comments or complaints relating to the Code on the ASX website and check it advises that comments or complaints should be addressed to the attention of the office of the Chief Executive Officer.	<p>From examination of the "Comments and Complaints Protocol for the Code of Practice" document the following is stated – <i>"You can provide comments or make a complaint by sending an email or letter to the Chief Executive Officer"</i>.</p> <p>Contact details are outlined in the document for comments or complaints provided by mail or email. The ASX email address included in the document is info@asx.com.au.</p> <p>It is noted that ASX Customer Service receives all emails sent to info@asx.com.au. A test email was sent to the email address requesting confirmation who had received the message. A response was received from ASX Customer Service who advised that all complaints are logged and assigned to the appropriate person.</p> <p>Through inquiry with management it was noted that any comments or complaints relating to the Code of Practice are assigned and forwarded to the Forum Secretary, with ultimate referral to the Chief Executive Officer.</p>
(g) If a party is not satisfied with the response from the ASX Chief Executive Officer, the party may ask for the comment or complaint to be directed to the Forum Chair and the Boards of ASX Clear and ASX Settlement for their consideration.	Performed by PwC	Examine the procedures and protocols for comments or complaints relating to the Code on the ASX website and check they advise that anyone dissatisfied with the response they received may ask for the comment or complaint to be directed to the Forum Chair and the Boards of ASXCL and ASXS for their consideration.	<p>From examination of the "Comments and Complaints Protocol for the Code of Practice" document the following is stated – <i>"If you are not satisfied with the response, you can ask for the Forum Chair and the Boards of ASX Clear and ASX Settlement to review how your comment or complaint was dealt with"</i>.</p> <p>Contact details (mail and email) are outlined in the document for the Forum Chair. The email address included in the document is – forumchair@asx.com.au.</p>



Code Obligation	Scope	Procedure	Findings
			<p>We sent a test email to the email address outlined above and sighted its receipt by management.</p> <p>Through inquiry with management it was noted that any matters received via the above email address are reviewed by the Forum Secretary and then then escalate to the appropriate person (in this case either the Forum Chair and the Boards of ASXCL and ASXS) for consideration.</p> <p>It is further noted through inquiry with management, no comment or complaint requested to be directed to the Forum Chair and the Boards of ASXCL and ASXS were received during the period.</p>
<p>6. Protection of Confidential Information</p>			
<p>(a) ASX Clear and ASX Settlement will comply with ASX's published Conflict Handling Arrangements policy. Any confidential or competitively sensitive information that is acquired in the course of providing clearing and settlement services will only be used for the purpose for which it was provided.</p>	<p>Performed by PwC</p>	<p>i. Obtain details of the types of confidential or competitively sensitive information that is acquired in the course of providing clearing & settlement services.</p> <p>ii. Inquire on the processes in place to ensure that any such information is only used for the purpose for which it was provided.</p>	<p>i. Noted through inquiries with management that data received from the AMOs and ALMOs under the TAS or SFS respectively is considered confidential and competitively sensitive information.</p> <p>ii. It is noted that confidential and competitively sensitive information for AMOs or ALMOs was previously sent to 1 central contact within the ASX. "Hush mail" accounts for communication between the ASX, AMO, and ALMOs have been established should the parties wish to utilise these.</p> <p>It is the responsibility of the respective AMOs or ALMOs to advise the ASX which data they wish to be treated as competitively sensitive. This request is reviewed by the central ASX contact to agree if such data is competitively sensitive.</p>



Code Obligation	Scope	Procedure	Findings
			<p>For information provided to the ASX which is deemed competitively sensitive this would only be provided to other people within the organisation if required and post permission from the AMO or ALMO.</p> <p>This process was altered during the period for TAS related confidential and competitively sensitive information. It was agreed between the ASX and AMO that a group of 4 people at the ASX would be established for which confidential and competitively sensitive information could be provided.</p> <p>It was confirmed with management that information received by the ASX had been handled in-line with their published Conflict Handling Arrangements policy.</p> <p>We sighted 'Key Obligation Self Assessments' for key personnel at the ASX involved in the clearing & settlement activities for the period and noted no issued with compliance with the Conflict Handling obligations.</p>
<p>(b) ASX Clear and ASX Settlement will not use any confidential or competitively sensitive information acquired in the course of providing clearing and settlement services to provide an advantage to an affiliated entity of ASX Clear or ASX Settlement.</p>	<p>Performed by PwC</p>	<p>Inquire with management if confidential or competitively sensitive information acquired was not utilised to provide an advantage to an affiliated entity of ASX Clear or ASX Settlement.</p>	<p>We inquired with management and noted that no competitively sensitive information acquired was utilised to provide an advantage to an affiliated entity of ASX Clear or ASX Settlement.</p> <p>As noted above, we sighted 'Key Obligation Self Assessments' statements for key ASX personnel involved in the clearing & settlement activities and noted no issued with compliance with the Conflict Handling obligations.</p>



Code Obligation	Scope	Procedure	Findings
<p>(c) ASX Clear and ASX Settlement will put in place operational standards for the protection of AMO and ALMO competitively sensitive information acquired by ASX Clear and ASX Settlement in the course of providing the TAS or the Settlement Facilitation Service. ASX will consult with AMOs and ALMOs on the development of Information Handling Standards to implement information barriers within ASX to safeguard AMO and ALMO competitively sensitive information.</p>	<p>Performed by PwC</p>	<p>i. Check that ASXCL and ASXS have put in place operational standards for the protection of AMO and ALMO competitively sensitive information acquired by ASXCL and ASXS. ii. Obtain correspondence to confirm that ASX has consulted with AMOs and ALMOs (as identified for 4.2(a) above) on the development of Information Handling Standards to implement information barriers within ASX to safeguard AMO and ALMO competitively sensitive information.</p>	<p>i. The procedures and protocols established internally at the ASX have been outlined in section 6(a) above.</p> <p>ii. It is noted that the ASX sent (via email on the 23 January 2013) to AMO or ALMOs the ASX consultation paper on – Clearing and Settlement Services for Approved Market Operators and Approved Listing Market Operators: Enhanced service levels and information handling standards.</p> <p>This consultation paper is also included on the ASX website (http://www.asx.com.au/regulation/public-consultations.htm)</p> <p>It is noted that the consultation paper includes proposals to enhance the protection of confidential information received from AMOs and ALMOs. Through inquiries with management it is noted that proposed amendments from the consultation process have been completed and can into effect on the 1 July 2014.</p> <p>It is noted that submissions from Chi-X and APX to the consultation paper have been included on the ASX website (refer to link listed above). ASX's responses to these submissions have also been published on the website.</p>
<p>7. Operation of the Code</p>			
<p>(a) This Code commences operation on 9 August 2013.</p>	<p>Statement</p>	<p>No procedures performed as this section outlines the effective date of this Code as 9 August 2013.</p>	<p>Not Applicable.</p>



Code Obligation	Scope	Procedure	Findings
(b) Changes to the Code will not be made without prior consultation with the Forum, other users and the Agencies.	Reliance on IA	i. Identify any changes to the Code. ii. For a sample of changes, examine the minutes of the Forum and correspondence with other agencies and Forum members to confirm they were consulted.	Through inquiries with management, no changes to the Code have been undertaken since its implementation.
(c) This Code will be interpreted consistently with: <ol style="list-style-type: none"> 1) ASX Clear and ASX Settlement's license obligations under the Corporations Act; 2) ASX's legal or regulatory obligations; 3) the ASX Clear and ASX Settlement operating rules; or 4) any agreements entered into between ASX, and customers and other stakeholders. 	Statement	No procedures performed as this section articulates which documents the Code will be interpreted with.	Not Applicable.



J.P. Morgan:

1. Effectiveness of the Forum

Consider: Has the Forum has achieved its objectives, in particular, providing a mechanism for customers and industry stakeholders to provide input to ASX on the ongoing development of cash market clearing and settlement services? Is an equal opportunity to express views and opinions provided to all Forum members? Is the communication between the Clearing and Settlement Boards and the Forum appropriate? If not, please specify why not.

To some extent the Forum has achieved its objectives regarding cash market and settlement services. To date, the Forum has been designed as an engagement mechanism for the most senior representative of the stakeholders. However, a number of market participants offer more broad-based financial services, and the cash market and associated clearing and settlement services form part of their overall market offering.

To ensure the Forum meets its objectives, the Business Committee is potentially a more appropriate group forum for discussions regarding cash market and settlement services as the Committee is attended by the Market Participants' Equities COO's and Heads of Operations. This type of membership profile will ensure more granular input.

In addition, in properly assessing the effectiveness and efficiency of the Forum, it should be noted that it is still very important for the ASX to maintain other effective Industry engagement mechanisms including consultation papers, bulletins and particularly the Business Committee.

2. ASX's mechanisms for user engagement and consultation

Consider: Do ASX's mechanisms for user engagement and consultation (e.g. Forum, consultation papers, industry briefings) offer ample opportunity to provide feedback on the development of the market? If not, please specify why not.

Yes

3. ASX's responsiveness to requests

Consider: Does ASX respond to requests relating to cash market clearing and settlement services in a timely manner? If not, please provide relevant details.

Yes

4. Administration of the Code

Consider: Was the nomination and appointment process for members of the Forum appropriate? Is the process for resignation and replacement appropriate? If not, please provide specific comments.

The Forum is currently designed as an engagement mechanism for the location CEOs / Senior Country Officers. As such the nomination and appointment process for members seems appropriate.



LINK Group:

1. Effectiveness of the Forum

Consider: Has the Forum has achieved its objectives, in particular, providing a mechanism for customers and industry stakeholders to provide input to ASX on the ongoing development of cash market clearing and settlement services? Is an equal opportunity to express views and opinions provided to all Forum members? Is the communication between the Clearing and Settlement Boards and the Forum appropriate? If not, please specify why not.

The forum has achieved in it's objective of providing a channel for customer and industry stakeholders to provide their individual and combined input into the future of the cash market clearing and settlement services. The forum provides an open and encouraging opportunity for all members to express their opinions.

In addition the communication between the clearing and settlements boards and the forum members appears appropriate.

2. ASX's mechanisms for user engagement and consultation

Consider: Do ASX's mechanisms for user engagement and consultation (e.g. Forum, consultation papers, industry briefings) offer ample opportunity to provide feedback on the development of the market? If not, please specify why not.

Yes, I believe that the user engagement and consultation mechanism is appropriate and effective.

3. ASX's responsiveness to requests

Consider: Does ASX respond to requests relating to cash market clearing and settlement services in a timely manner? If not, please provide relevant details.

Yes, I believe the ASX does respond in a timely manner.

4. Administration of the Code

Consider: Was the nomination and appointment process for members of the Forum appropriate? Is the process for resignation and replacement appropriate? If not, please provide specific comments.

Yes, I believe this is appropriate.

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 6C

Topic	Minutes from 7 May 2014 meeting
Date of the Meeting	27 August 2014
Purpose of this paper	To provide Business Committee members with a copy of the minutes and Business Committee report to the Forum from the 7 May 2014 meeting.
Action required	To approve the minutes and report to the Forum from the 7 May 2014 meeting.

Draft minutes and the draft report to the Forum from the 7 May 2014 Business Committee meeting were emailed to all members of the Business Committee on 10 June 2014 for comments by 16 June 2014.

There were no changes to the draft minutes and report suggested by Business Committee members.

The Business Committee minutes were signed by the Chair on 16 June 2014.

A copy of the minutes and report to the Forum from the 7 May 2014 meeting are provided in Attachments A and B.

ATTACHMENTS

Attachment A – Minutes from the 7 May 2014 Meeting

Attachment B – Business Committee Report to the Forum from the 7 May 2014



MINUTES OF THE BUSINESS COMMITTEE
WEDNESDAY, 7 MAY 2014
ASX LIMITED
LEVEL 1, 20 BRIDGE STREET SYDNEY

1. Introduction with lunch served on arrival

2. Global Trends in Outsourcing

Boston Consulting Group presentation on global outsourcing trends

3. Service Performance

- a. Cash market clearing and settlement operational performance report
- b. Update on quarterly report on activity level and fees for individual participants

4. Business Matters

Existing initiatives

- a. International cost benchmarking
- b. Consultation on transitioning to a T+2 settlement cycle
- c. Update on the development of ASX's post trade technology strategy

New initiatives for consideration under the forward work program

- d. Clearing participant structures
- e. Capital and risk review
- f. Corporate actions straight-through-processing (STP)

5. Administration

- a. Forward work program
- b. Minutes from the 19 February 2014 meeting
- c. Briefing on the international cost benchmarking report
- d. 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	Head of Compliance
BBY Ltd	Mr Arun Mahraj	Chief Executive Officer
Bell Potter Securities (by telephone)	Mr Dean Surkitt	Managing Director Retail
BNP Paribas	Mr Justin Christoper	Chief Operating Officer
Citi	Mr Miles O'Connor	Director, Direct Custody & Clearing Securities & Funds Services
Commonwealth Bank of Australia	Mr Sheridan Thompson	Head of Strategic Development, CommSec
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
Deutsche Bank AG	Mr Russel Deal	Chief Operating Officer
HSBC	Mr Andrew Bastow	Head of Securities Services
J.P. Morgan (by telephone)	Mr Samuel Mann	Business Manager, Australia Equities
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Morgans	Ms Sue Gye	Manager Operations
Morgan Stanley	Mr Craig McGuire	Head of Operations
NSX (by telephone)	Mr Scott Evans	General Manager & Company Secretary
Patersons Securities (by telephone)	Mr Sam Budiselik	Chief Operating Officer
Pershing Securities	Mr Rob Forbes	Chief Operating Officer

ASX Management	
Name	Job Title
Ms Amanda Harkness	Group General Counsel & Company Secretary
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
Mr Marcin Firek	General Manager, Company Secretariat
Ms Diane Lewis	Senior Manager, Regulatory and Public Policy
Mr Rodd Kingham	Senior Manager, Clearing Services
Mr Gary Hobourn	Senior Economic Analyst

APOLOGIES

MEMBERS		
Company	Name	Job Title
Chi-X Australia	Mr Jason Keady	Director Markets and Operations
Goldman Sachs	Mr Greg Hanlon	Head of Operations
Morgans	Mr Peter Chisholm	Chief Operating Officer
NSX	Mr Emlyn Scott	Chief Executive Officer
UBS	Mr Conor Foley	Chief Operating Officer

The meeting commenced at 12.00pm.

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 AND OVERVIEW OF MEETING AGENDA

The Chair welcomed Committee members to the meeting, including those participating by phone.

AGENDA ITEM 2: GLOBAL TRENDS IN OUTSOURCING

The Chair introduced Mr Ben Stretch and Mr Simon Gattorna from Boston Consulting Group, who presented to the Committee on global trends in post-trade outsourcing. Mr Stretch and Mr Gattorna spoke to their presentation titled 'Capital Markets externalisation', discussing how:

- different capital market participants had responded to current revenue and growth challenges facing the industry;
- market participants were seeking efficiency benefits across different parts of their business by internal integration or externalisation and the potential benefits which could be realised from externalisation; and
- market participants were responding to externalisation opportunities, and the challenges and key considerations of seeking to exploit those opportunities.

The Chair invited questions from Committee members. In response to questions, Mr Stretch and Mr Gattorna discussed the impact of regulatory constraints on the take-up of externalisation in the Asia Pacific region, the development of in-house capability and how participants have sought to respond to regulatory changes.

Mr Stretch and Mr Gattorna left the meeting.

AGENDA ITEM 3: SERVICE PERFORMANCE

a. Clearing and settlement service performance report

The Committee noted the report on the operational performance of cash market clearing and settlement services set out in the agenda paper, including key clearing and settlement metrics for the quarters ended December 2013 and March 2014.

ASX's Group Executive of Operations spoke to the agenda paper, noting that:

- CHES and TAS system availability was 100% for both quarters; and
- settlement efficiency was 99.9% for both quarters.

b. Activity and Fee Reporting for Clearing and Settlement Participants

The Committee noted the agenda paper updating the Committee on progress in the development of new quarterly clearing and settlement activity and fee reports. ASX's Senior Manager, Clearing Services informed the Committee that ASX was expecting to have the new reports completed towards the end of May.

The Chair encouraged Members to provide feedback on the new reports once they were received.

AGENDA ITEM 4: BUSINESS MATTERS

a. International Cost Benchmarking

ASX's Senior Economic Analyst joined the meeting.

The Chair informed the Committee that the international cost benchmarking report would be completed for the 23 June 2014 Forum meeting. The Chair noted that ASX is arranging for Oxera Consulting (Oxera) to present the results of the international benchmarking analysis to the Committee in advance of the Forum meeting on 18 June 2014.

ASX's Senior Economic Analyst updated the Committee on the progress of the international benchmarking report, noting that:

- Oxera had held direct discussions with some Members on how they use ASX's services, their perspectives on the cost benchmarking project and the user profile analysis. This input had been very helpful in the context of Oxera's analysis;
- ASX has also provided Oxera with disaggregated post-trade message data that it did not previously have access too. This data has enabled Oxera to refine their costing inputs and methodology for Australia. Oxera has also contacted FMIs in other jurisdictions to improve their understanding of the different operating models in these markets;
- data limitations were being encountered in relation to the top down analysis where the relevant revenue and expense information for vertically or horizontally integrated exchanges is confidential and not accessible; and
- ASX had discussed the three issues raised by the Committee in the previous meeting with Oxera. Oxera has confirmed that the analysis should either directly or indirectly capture the matters identified by the Committee – a global asset manager end-user in the user profile analysis, information relating to the settlement of non-novated transactions, and information related to the use third party clearing services.

The Chair invited comments and questions from Members. One Member inquired whether it was possible to receive a copy of the benchmarking report prior to Oxera's presentation of the results of the benchmarking analysis to the Business Committee. The Chair responded that it may be difficult to issue the final report ahead of the Business Committee briefing given the analysis had been accelerated (at the request of the Forum) and the tight timeframes involved in delivering the report by the Forum meeting on 23 June 2014. It was noted that Oxera could be available to answer any follow-up questions after the report is published, if needed.

ASX's Senior Economic Analyst left the meeting.

b. Transitioning to a T+2 Settlement Cycle

The Committee noted the agenda paper summarising the feedback received by ASX in response to its public consultation paper on transitioning to a T+2 settlement cycle for cash equities.

The Chair thanked Members for their submissions in response to the consultation paper and noted that the feedback provided in submissions had been helpful in considering how to progress this initiative.

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

- a summary of the consultation feedback would be presented to the next Forum meeting. At that meeting, the Forum would be invited to consider the timing for the introduction of a T+2 settlement cycle;
- Consultation feedback indicated widespread industry support for shortening the settlement cycle by a business day;

- there was a range of views on the implementation timing, which tended towards an early Q1 2016 (CY) implementation target date on the basis that it would be more achievable for the whole industry. However, a number of participants requested that consideration be given an accelerated implementation date in early 2015 to align with the move to T+2 in the EU;
- while there was strong support for pushing back the batch settlement cut-off time to support the move to a T+2 settlement cycle, most respondents acknowledged that the cut-off time shouldn't be pushed back too much because of the implications for post settlement processes;
- a significant majority of stakeholders expressed strong opposition to the possibility of introducing a second batch settlement to manage late settlements on the basis of operational duplication and increased costs; and
- ETF issuers had expressed concerns about the mismatch in settlement times if cash equities move to a T+2 settlement cycle and the underlying bond markets retain a T+3 settlement cycle, which had the potential to create complexities and increase settlement risk for domestic fixed income ETFs in relation to creations and redemptions. It was noted that ASX had held a roundtable discussion with ETF issuers on these matters and would seek to engage with the relevant stakeholders in relation to the settlement convention in the debt markets;

ASX's Group Executive of Operations noted that ASX had met with the Australian Payments Clearing Association (APCA) to discuss changing the batch settlement cut-off time. APCA advised ASX that they would be undertaking significant work on the New National Payments Platform in FY15 and that whilst it would prefer to retain the existing batch settlement cut-off time, it could accept a later cut-off in the morning.

The Chair invited Members to discuss the consultation feedback received, particularly in relation to changing the batch settlement cut-off time. Consistent with the feedback received in submissions, a number of Members indicated that a later batch settlement cut-off time was required to support a shorter settlement cycle.

A number of members acknowledged that there was a balance to be struck in changing the cut-off time such that it provided additional time to better accommodate the Asian time zone, but also minimised the resultant delay in daily afternoon settlement processing and changes to funding processes.

One Member noted the increased likelihood of failed settlements in the context of ETFs and the mismatch in the settlement period with the underlying. The Member requested consideration of how this could be addressed and whether the settlement fail fees could be waived in such circumstances. The Chair noted that ASX was engaged with ETF issuers and that further consideration would be given to these issues. **[Agreed Action 1]**

It was also noted that ASX would consider the feedback on fees payable for failed settlements with the introduction of a T+2 settlement cycle more generally, but cautioned that it was important that the disciplinary regime continued to provide appropriate incentives for timely settlement and the market efficiency that this provides.

The Chair summarised the discussion and requested confirmation from the Committee that it was comfortable with ASX taking a recommendation to the Forum that:

- implementation of a T+2 settlement cycle should occur in Q1 2016; and
- the batch settlement cut-off should be changed to a time no later than noon.

The Committee agreed to such a recommendation being provided to the Forum for its 23 June 2014 meeting.

c. Update on the development of ASX's post trade technology strategy

The Chair informed the Committee that ASX was intending to provide a roadmap on cash market clearing and settlement services at the next Committee meeting. The Chair noted that the roadmap would set out, among other things, the proposed introduction of a T+2 settlement cycle, proposed implementation of measures to enhance flexibility in clearing participant structures and CHES replacement including new functionality, for example, multi-asset class, multi-currency and standardised messaging. **[Agreed Action 2]**

The Chair advised the Committee that the replacement of CHES would involve extensive consultation and that ASX envisaged that the Technical Committee would play a role in the solution design.

A Member inquired whether the batch processing time could be shortened from the current approximate one hour. ASX's Group Executive Operations responded that the largest element in batch settlement processing was the payment provider authorisation process, which on average constituted 50% of the settlement processing time and generally took between 30 and 45 minutes to complete. It was noted that the settlement allocation process undertaken by ASX Settlement generally took between 10 and 15 minutes. ASX's Group Executive Operations indicated that on the basis that improving payment provider authorisation processes would provide the largest benefit, ASX would be happy to initiate further discussions with the 9 payments providers in the Australian market (having previously raised this issue with payment providers in 2013).

d. Clearing participant structures

ASX's General Manager of Clearing Services updated the meeting on ASX's early considerations for a principal to principal clearing participant model, based on a PowerPoint presentation, including:

- an outline of a simplified principal to principal model, previously referred to as clearing only. It was noted that this was not an unusual model overseas; and
- the potential benefits and issues for consideration of such a model.

The Chair noted that ASX was not seeking to design the model in the meeting today, but was seeking feedback from Members on the level of interest in a principal to principal clearing model and whether further work in this area should be prioritised, especially in the context of CHES replacement. Members provided a range of feedback, including:

- a member noting, with the support of three other members, that a principal to principal clearing model would be beneficial to the market by providing the flexibility to facilitate different business models and by driving innovation. It was also noted that there would be benefit in achieving clarity in the regulatory framework (across the Corporations Act, Market Integrity Rules and ASX's Operating Rules) in relation to where the regulatory obligations for retail clients reside with respect to the trading participant, the clearing participant and the settlement participant;
- that there would be reduced desire to implement new models without regulatory clarity;
- a couple of members noting that a new principal to principal clearing model was not a priority, but that there would be significant benefit in obtaining regulatory clarity on the 'look through' of regulatory obligations relating to retail clients to the clearing participant. It was suggested that this issue could be progressed in two phases – 1) obtain regulatory clarity and 2) further examine the development of a principal to principal clearing model; and
- a member noting that they had an interest in also separating the trading participant and settlement participant, which would provide for three distinct functions. In these circumstances, it was felt that there should be no duplication of regulatory obligations.

ASX's General Counsel and Company Secretary noted that transitioning to a new model would be a large piece of work involving significant regulatory challenges. It was noted that a two phased

approach would likely be the best way to progress the issue to deliver some benefits in the nearer term.

The Chair noted that there was support from the Committee for further consideration of this issue and the examination of a potential principal to principal clearing participant model. The Chair advised that ASX would come back to the Committee on how to approach this issue at the next meeting. **[Agreed Action 3]**

e. Capital and Risk Review

The Committee noted the high level overview of ASX's risk management framework for cash market transactions centrally cleared through ASX Clear as set out in the agenda paper. ASX's Chief Risk Officer informed the Committee that:

- there are three primary tiers of ASX Clear's risk management framework, where tier one is focused on minimising the probability of a clearing participant default and tiers two and three are focused on ensuring ASX Clear can withstand the losses it may incur in managing a loss given default by a clearing participant;
- ASX Clear currently runs around 100 different stress tests each day for every clearing participant;
- ASX Clear had previously considered scheduled intra-day margining on equities, with early industry feedback indicating that at this stage it was a step too far; and
- unlike the majority of other CCPs, ASX provided 100% of all paid-in default resources and that there was no paid-in clearing participant default fund. It was noted that ASX could consider further the composition of the default fund, whereby the substitution of ASX paid-in default resources with clearing participant default resources could be accompanied by a reduction in clearing fees.

The Chair noted that any changes to the default fund would require regulatory clearance and invited comments and questions from Members. The Committee had a wide ranging discussion about the operation of the risk management arrangements and the default fund, with a member indicating that he did not support scheduled intra-day margin calls.

f. Corporate Actions Straight Through Processing

ASX's General Manager of Settlement Services updated the Committee on the implementation of the first phase of corporate actions straight through processing and highlighted key considerations for further developments, including:

- the first phase of the initiative, covering four corporate action types and approximately two-thirds of corporate actions by volume, would go-live on 21 July 2014. It would be mandatory for all listed companies six months after the go-live date; and
- ASX was seeking Committee feedback regarding how to address the remaining corporate actions, including considering options to:
 - implement all of the remaining corporate actions;
 - prioritise and implement only some of the remaining corporate actions based on volume and/or those where it is feasible to do end-to-end straight through processing; and
 - implement straight through processing of data dissemination to customers of corporate action information (through ISO 20022 standard messaging) for the remaining corporate actions where it may not be feasible to do end-to-end straight through processing.

The Chair invited Members to express their views on the next phase of the initiative and how the remaining corporate actions should be prioritised.

The Chairman of the ACSA Corporate Actions Working Group expressed disappointment in relation to the delays in the implementation of the initiative. He noted the importance of the

initiative in reducing risk for the market and that it is important for ASX to continue on the path of implementing straight through processing for corporate actions. The Chairman of the ACSA Corporate Actions Working Group expressed the view that the next phase of the initiative should be focussed on those corporate actions where it is feasible to do end-to-end straight through processing (that being the next five corporate action types set out in the agenda paper, which would cover a further 30% of corporate action volume).

Another Member endorsed the view that the assessment of the corporate action types which should be prioritised in the next phase of the initiative should be based on volume as this would reduce risk for the market. It was also noted that progressing the next phase of the initiative in the near to medium term would be important in ensuring the momentum of moving to straight through processing is maintained.

The Chair agreed to include a roadmap for phase II of the initiative in the post-trade roadmap and the forward work program. **[Agreed Action 4]**

AGENDA ITEM 5: ADMINISTRATION

a. Forward Work Program

ASX's General Manager of Clearing discussed the forward work program for the Committee set out in the agenda papers, and noted that the topics scheduled for the August Committee meeting would be:

- consideration of domestic participant location requirements, including potential consequences for the clearing house and ASX and participant capital requirements;
- service innovations, including hosted solutions and offshoring arrangements; and
- a roadmap for ASX's cash market post-trade services.

The Chair invited Members to comment on the forward work program. A Member requested that an update on the outsourcing Guidance Note be provided at the next meeting. **[Agreed Action 5]**

b. Minutes from the 19 February 2014 meeting

The Chair noted the minutes from the 19 February 2014 meeting and invited comments. As there were no comments, the Chair noted that the minutes were approved.

c. Next meeting

The Chairman invited all Members to attend a presentation by Oxera on the results of the cost benchmarking analysis, which will be held on Wednesday, 18 June 2014.

The Committee noted that the next Business Committee meeting will be held on Wednesday 27 August 2014.

As there was no further business discussed, the meeting closed at 2.00pm.

Signed as a correct record of the meeting.



Chairman

16/6/2014

Date



BUSINESS COMMITTEE REPORT TO THE FORUM

From the 7 May 2014 Business Committee meeting

At its 7 May 2014 meeting, the Business Committee was updated on progress in the international cost benchmarking analysis, the consultation feedback received in relation to transitioning to a T+2 settlement cycle for cash equities and the risk management framework for cash market transactions cleared through the central counterparty (ASX Clear). The Business Committee was invited to provide feedback on the target implementation date for the introduction of a T+2 settlement cycle, early considerations of a principal to principal clearing participant model, and the appropriate approach to the second phase of corporate actions straight through processing.

Key Recommendations

The Business Committee recommended:

- a Q1 2016 (CY) implementation date for the introduction of a T+2 settlement cycle for cash equities should be targeted;
- the batch settlement cut-off should be changed to a time no later than noon to support the introduction of a T+2 settlement cycle;
- that further consideration should be given to the issues concerning the 'look through' of regulatory obligations relating to retail clients to the clearing participant and a potential principal to principal clearing participant model should be examined. The initial focus should be obtaining clarity on the regulatory obligations (across the Corporations Act, the Market Integrity Rules and ASX's Operating Rules) relating to the end customer, in particular retail clients, which apply to the trading participant, clearing participant and settlement participant; and
- that the second phase of corporate actions straight through processing initiative should focus on corporate actions types with higher volumes and where it is feasible to do end-to-end straight through processing.

Key Issues Discussed

- The widespread industry support for the introduction of a T+2 settlement cycle for cash equities and the balance to be struck in pushing back the batch settlement cut-off time to support the introduction of a shorter settlement cycle such that it minimised the resultant delay in daily post settlement processes.
- The importance of progressing the second phase of corporate actions straight through processing in the near to medium term to ensure the momentum of moving to straight through processing is maintained.
- An outline of a simplified principal to principal clearing participant model and the key issues for consideration, including the potential benefits and the significant regulatory challenges to implement any such model.

Agreed Actions

1. ASX to continue to engage with ETF issuers and further consider the appropriate response to the potential for increased failed settlements in the context of ETFs and the mismatch in the settlement period with the underlying which remains on a T+3 settlement cycle (i.e. fixed income securities).
2. ASX to provide the Business Committee a roadmap for cash market clearing and settlement services at its 27 August 2014 meeting which incorporates, among other things, the introduction of a T+2 settlement cycle, proposed implementation of measures to enhance flexibility in clearing participant structures and CHES replacement.
3. ASX to update the Committee at its 27 August 2014 meeting on its proposed approach to obtaining clarity of the regulatory obligations relating to retail clients that apply to the clearing participant and consideration of a potential principal to principal clearing participant model.
4. ASX to include a roadmap for the second phase of the corporate actions straight through processing initiative in the forward work program.
5. ASX to update the Committee on the outsourcing Guidance Note at its 27 August 2014 meeting.