



AGENDA

Business Committee Meeting

Timing: Thursday, 27 November 2014 commencing at 12.00pm

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

Lunch Presentation on ETO Market Developments 12.00pm – 12.30pm

A strategic update and an overview of ETO market developments will be presented to the Business Committee.

1. Business Committee Meeting Introduction 12.30pm – 12.35pm

The Chair will update the Business Committee on the outcomes of the Forum meeting held on 1 October 2014.

2. Service Performance 12.35pm – 12.45pm

- a. Cash market clearing and settlement operational performance report
- b. Verbal update on the November CHES release, including TAS developments

3. Business Matters

- a. Introduction of T+2 settlement and a change to the batch settlement cut-off time 12.45pm – 1.05pm

The Business Committee will be provided with a recommendation on a change to the batch settlement cut-off time, and a roadmap for the Market Implementation Group.

- b. Clearing participant structures 1.05pm – 1.20pm

The Business Committee will be provided with an update on workshops examining the considerations and potential development of a principal-to-principal clearing model.

- c. Post-implementation update on corporate actions STP phase I 1.20pm – 1.25pm

The Business Committee will be provided with an update of post-implementation action items for the corporate actions STP phase I.

- d. Verbal update on the Technical Committee meeting on the roadmap for post-trade services infrastructure 1.25pm – 1.30pm

4. Regulatory Updates

- a. ASX Clear recovery plans 1.30pm – 1.50pm

The Business Committee will be provided with a verbal update on ASX Clear's consultation process on recovery plans and next steps.

- b. ASX Clear and ESMA recognition 1.50pm – 2.00pm
- The Business Committee will be provided with update on ASX Clear’s application for ESMA recognition.
- c. ASX Consultation Paper “Reducing red tape - proposed amendments to ASX’s admission and notification requirements” 2.00pm – 2.15pm
- The key proposed amendments to ASX admission and notification requirements will be presented and the Business Committee will be invited to provide feedback.
- 5. Administration 2.15pm – 2.25pm**
- a. Operational improvements to the Code of Practice
- The Business Committee will be updated on proposed operational improvements to the Code of Practice, including the Forum’s endorsement of moving to bi-annual Forum meetings and quarterly Business Committee meetings in 2015.
- b. Forward work program
- The Business Committee will be updated on the forward work program for 2015.
- c. Minutes from the 27 August 2014 meeting
- d. Other Matters
- 6. Next Meeting 2.25pm – 2.30pm**
- The next meeting of the Business Committee is scheduled for Wednesday, 4 March 2015, commencing at 12.00pm.

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 (by telephone)	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
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
Deutsche Bank AG	Mr Russell Deal	Chief Operating Officer
Goldman Sachs	Ms Yen Le	Head of Australia & New Zealand Settlements
HSBC	Mr Andrew Bastow	Head of Securities Services
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Morgan Stanley	Ms Rebecca Collins	Head of Securities Operations
NSX	Mr Emlyn Scott	Chief Executive Officer
Patersons Securities	Mr Sam Budiselik (by telephone)	Chief Operating Officer
Morgans	Mr Brad Yates	Senior Manager, Operations
UBS	Mr Conor Foley	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	
Ms Janine Ryan (Item 4a)	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 (Item 4a)	Senior Advisor, Clearing Risk Policy	
ASX Compliance Management		
Name	Job Title	
Ms Fiona Hooymans (Item 4c)	General Manager, Participants Compliance	

APOLOGIES

MEMBERS		
Company	Name	Job Title
Goldman Sachs	Mr Greg Hanlon	Head of Operations
J.P. Morgan	Mr Samuel Mann	Business Manager, Australia Equities
Morgans	Mr Peter Chisholm	Chief Operating Officer
Morgan Stanley	Mr Craig McGuire	Head of Operations
Pershing Securities	Mr Rob Forbes	Chief Operating Officer

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 2A

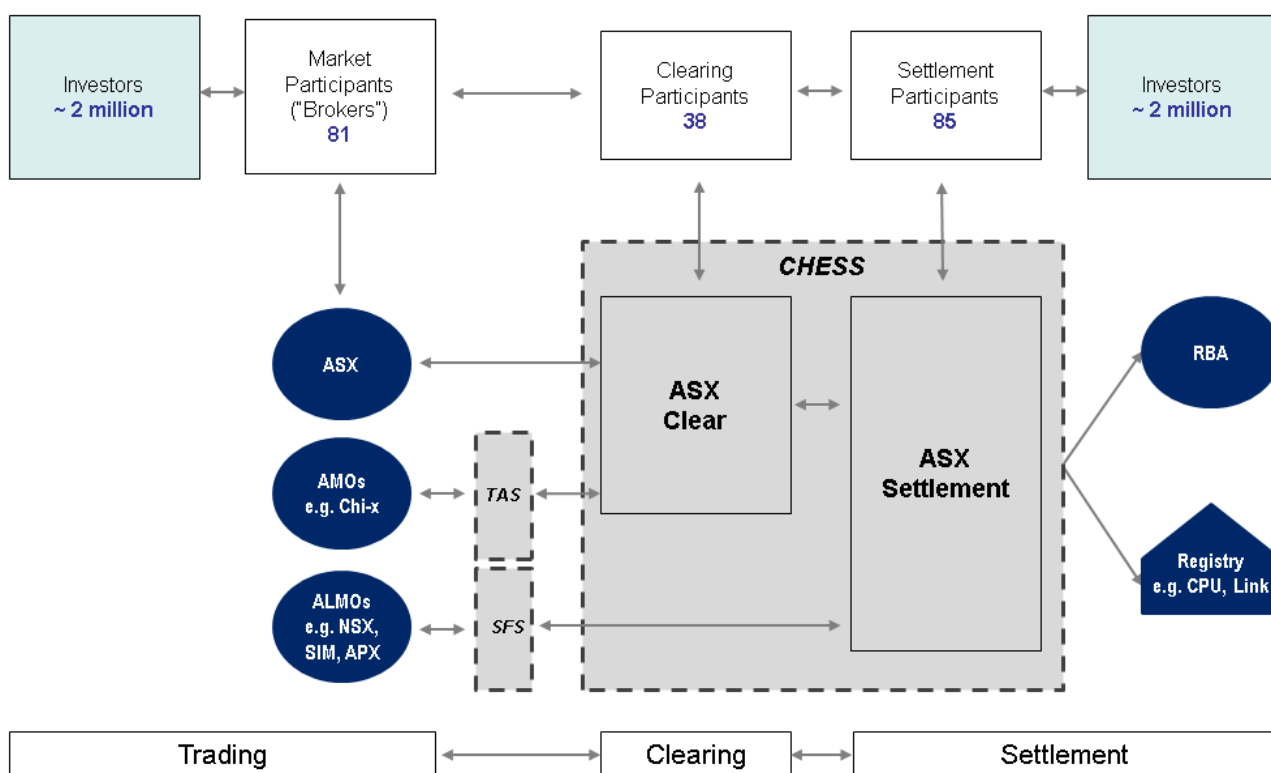
Topic Report on the Operational Performance of Cash Market Clearing and Settlement Services

Date of the Meeting 27 November 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 September 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 September 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 is 99.80% (the same as CHES).

For the September 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 September 2014 (which is the same as CHES).

Three modifications to the TAS to ensure equivalent validation conditions to those for the ASX market will be delivered in the November 2014 CHES release. The three modifications are:

1. Remove the validation condition for the sub-register to be open for trades submitted through the TAS.
2. Amend the 'as-at date' validation criteria to align it with the criteria for the ASX market and allow an 'as-at date' prior to the previous business date.

3. Remove the basis of quotation validation condition in relation to a corporate action event for the security code provided on the Trade Registration Request.

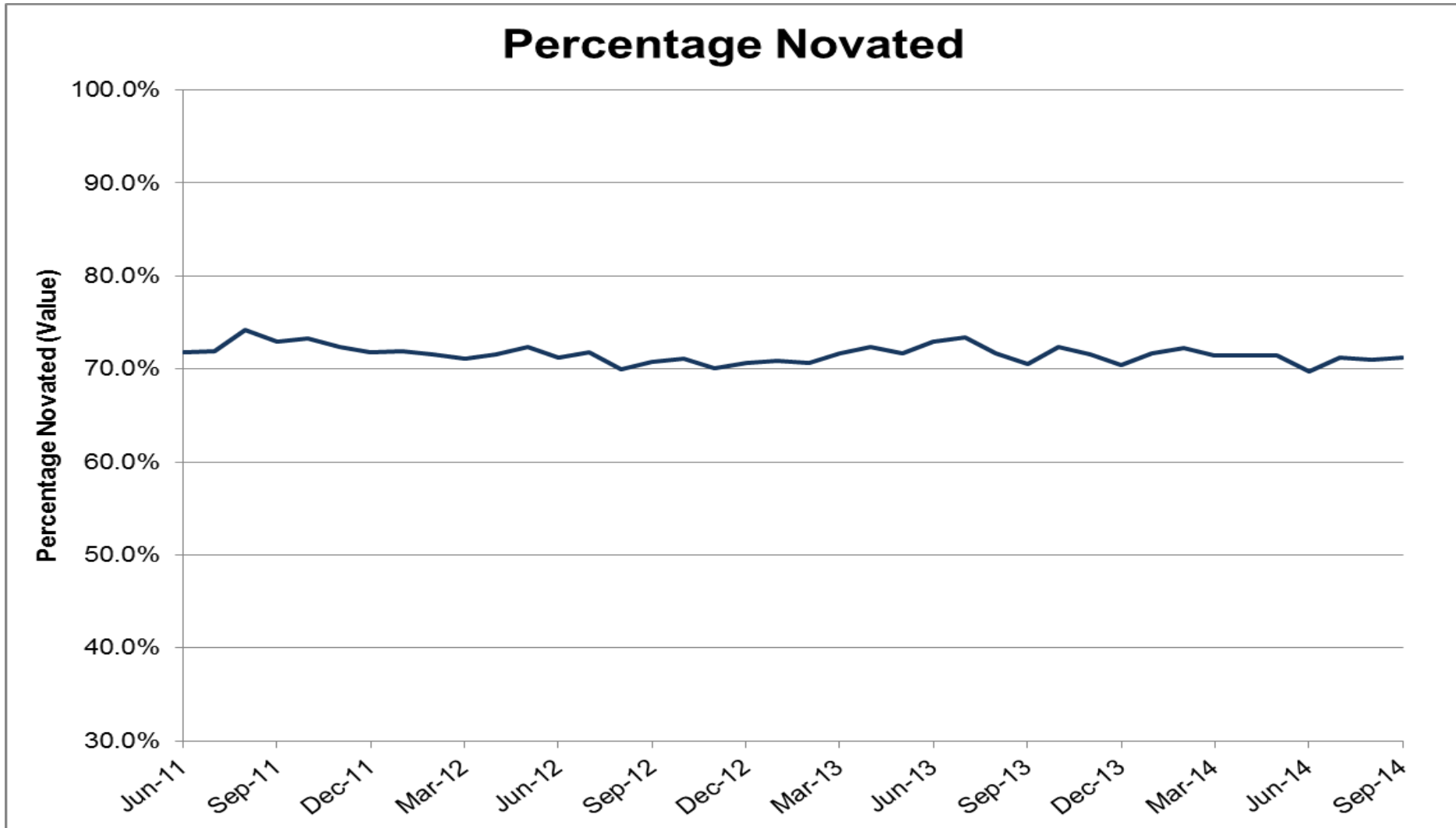
REPORTING ON CLEARING AND SETTLEMENT SERVICE PERFORMANCE

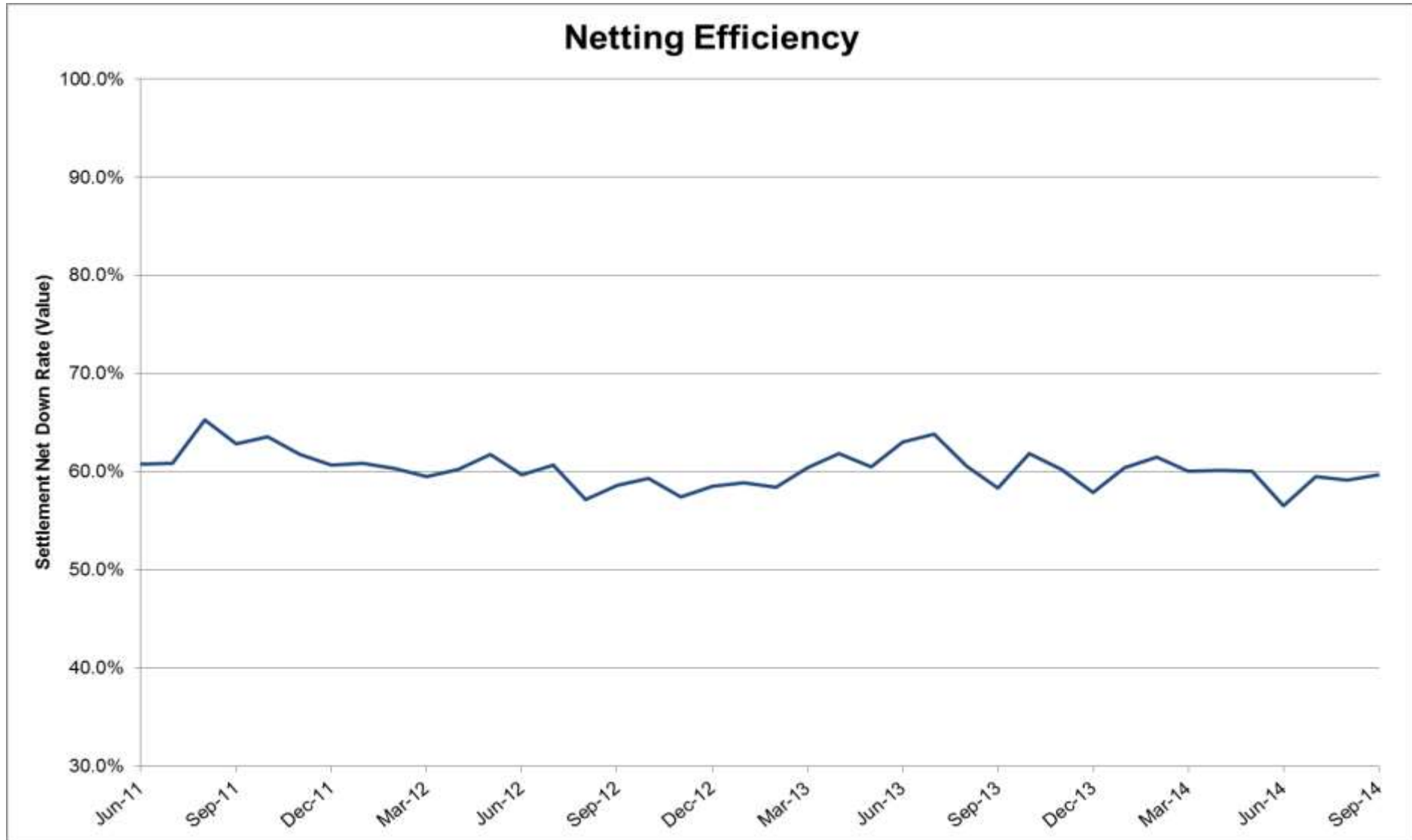
The key metrics noted above on novation, netting efficiency and settlement efficiency for the current September 2014 quarter in addition to the June 2014 quarter are reported in Attachment A. They are also supported by charts demonstrating a longer reporting period in Attachment B.

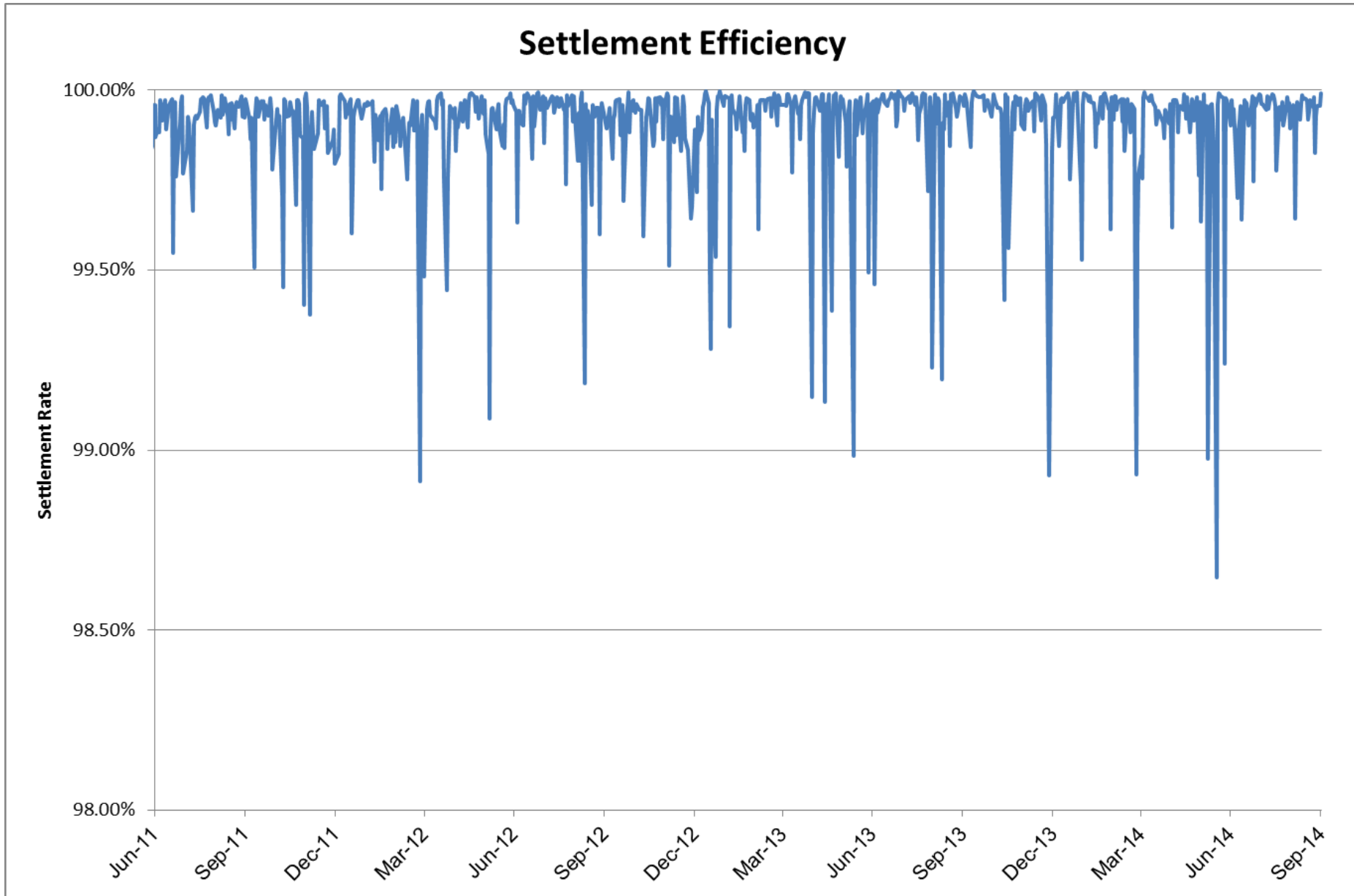
ATTACHMENT A – SUMMARY METRICS RELATING TO THE PERFORMANCE OF ASX'S CLEARING AND SETTLEMENT SERVICES

	September 2014 Quarter	June 2014 Quarter
System Availability (CHES)	100%	100%
System Availability (TAS)	100%	100%
Total Trades Accepted (ASX)	47,570,040	42,524,960
Total Trades Accepted (AMOs)	12,393,693	10,733,461
Total Trades Rejected (ASX)	15	25
Total Trades Rejected (AMOs)	3	0
Daily Average Traded Value (On and Off Market)	\$5.2 billion	\$4.9 billion
Daily Average Cleared Value	\$3.7 billion	\$3.5 billion
Percentage Novated	71.1%	70.9%
Daily Average Cleared Value Post-Netting	\$1.5 billion	\$1.4 billion
Netting Efficiency	59.4%	58.9%
Daily Average Settled Value (Including Non-Novated)	\$7.9 billion	\$7.7 billion
Settlement Efficiency	99.9%	99.9%

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







BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 3A

Topic	Introduction of a T+2 Settlement Cycle and Changes to the Batch Settlement Cut-Off
Date of the Meeting	27 November 2014
Purpose of this paper	To update the Business Committee on proposed changes to the CHES batch settlement cut-off time, and next steps in progressing T+2 market implementation.
Action required	The Business Committee will be invited to provide feedback on proposed changes to the batch cut-off time and next steps.

BACKGROUND

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 has begun detailed project planning for the implementation of T+2, and will continue working closely with the industry to transition to a T+2 settlement cycle for cash equities in Q1 2016.

PROPOSED CHANGE TO THE BATCH SETTLEMENT CUT-OFF TIME

Following further detailed consultation with participants, payment providers, the Australian Payments Clearing Association (APCA) with regard to the expected internal and external impacts of extending the batch cut-off, including the benefits of additional pre-settlement preparation time for participants and the implications for payment providers, default management processes and afternoon post-settlement processes, ASX proposes that the:

- CHES batch settlement cut-off be extended to 11:30am (from 10:30am);
- CHES batch cut-off extension option of 30 minutes be maintained (no change);
- payment authorisation cut-off be reduced to 60 minutes (from 90 minutes);
- ASX default management window be reduced to 1.5 hours (from 2 hours); and
- final payment settlement be maintained at 2.30pm (no change).

CONSULTATION ON BATCH SETTLEMENT CUT-OFF TIMING

ASX has undertaken consultation with participants, the Reserve Bank of Australia (RBA), APCA and their members on changing the timing of the batch settlement cut-off. As part of this consultation, ASX undertook a detailed assessment of the implications of moving back the batch settlement cut-off time to 11.00am, 11.30am and 12.00pm for customers, their payment providers and ASX's default management processes.

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 including additional risk in managing potential events of default. Changing the batch cut-off also has implications for payment providers in managing the risk and consequences of changes in settlement completion times and payment provider approval times.

On 22 October 2014, ASX held a second workshop with APCA and its member representatives in the CHES Payment Providers Working Group on ASX's proposal to change the timing of the batch settlement cut-off to 11:30am and to reduce the payment authorisation window to approve CHES payment messages from 90 minutes to 60 minutes. At

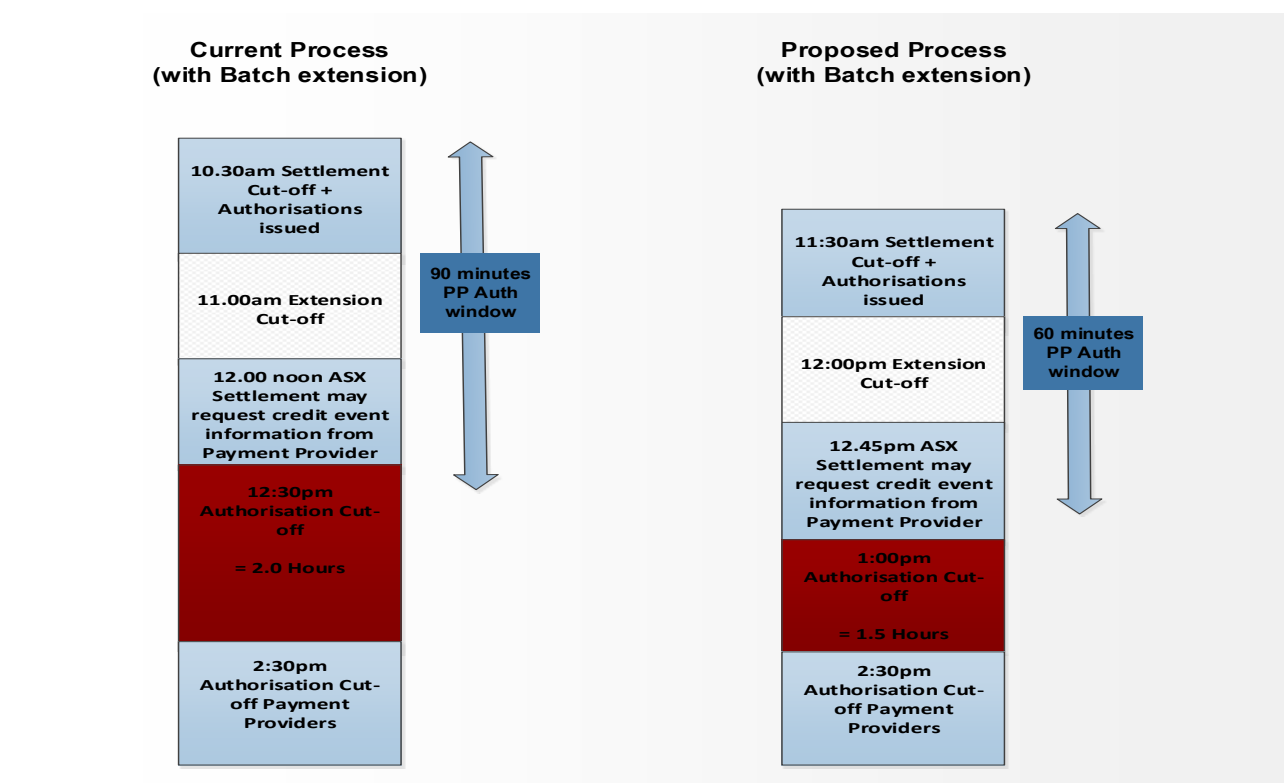
this workshop, APCA and the CHES Payment Providers Working Group endorsed ASX's proposal. This outcome will help ensure continued market efficiency within a shorter settlement environment with the introduction of T+2.

ASX has also agreed to immediately amend the batch cut-off extension notice process such that ASX will advise payment providers by telephone of any approved cut-off extensions at the time the extension is granted. Currently payment providers are advised after the first 15 minute window of the extension. ASX will also provide quarterly reports to payment providers following the implementation of T+2 setting out:

- the range of settlement completion times for the period, including highs and lows; and
- the relative rankings of payment providers in relation to settlement completion times to allow them to monitor their performance under the new arrangements.

ASX did discuss with a number of payment providers the possibility of increased automation and the introduction of swift message standards to assist with the implementation of the proposed new batch cut-off time and processes. To date, payment providers have not prioritised these measures and there is no dependency placed on progressing these with the introduction of the proposed changes.

The proposed changes to the batch settlement cut-off will take effect from the Q1 2016 T+2 implementation date. The proposed changes to daily batch processes are represented below.



ANALYTICS SUPPORTING THE PROPOSAL

ASX reviewed the previous 12 months of data on settlement completion times and the analytics demonstrate minimal expected impact from the proposal:

- the average payment approval time was less than 14 minutes, with the best at approximately 2 minutes and the worst at 23 minutes (compared to the proposed approval window of 60 minutes);
- payment providers completed 99.8% of payments within the proposed authorisation timeframe of 60 minutes. During this period, there were 4 exceptions. Two of the exceptions related to technical issues and the other 2 related to client queries on funding; and

- the average settlement completion time was 11.23am, with the earliest at 10.40am and the latest at 1.14pm, which is well within the range of completion times and before the settlement payment deadline of 2.30pm.

IMPLICATIONS FOR DEFAULT MANAGEMENT PROCESSES

A key consideration in changing the batch cut-off time for the ASX was 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). As a result of implementing an 11.30am batch cut-off, there will be a 30 minute reduction in time for ASX's default management processes (the default management window will be reduced to 90 minutes). ASX Clear's Default Management Committee has approved the reduction in the default management timeframes.

NEXT STEPS

ASX is currently considering an appropriate target go-live date in Q1 2016 for the introduction of T+2. At this stage, ASX proposes to target the month of March 2016. In determining this date, ASX will give consideration to the industry wide December and January system freeze periods, key staff availability over peak holiday periods, normal month end constraints and the seasonal peak in corporate actions in February. Feedback from Industry stakeholders will be sought as part of this process. Following a decision on a more precise implementation date, ASX will make a market announcement advising stakeholders to inform their own planning processes.

The ASX will establish an external T+2 Market Implementation Group (MIG). The MIG will be open forums and ASX will encourage participation from all interested stakeholders and industry associations, including participants, SAA, ACSA, APCA, AFMA, ASLA, share registries and system vendors. MIG meetings will be held virtually to allow open access to interstate and overseas stakeholders and relevant documentation will be provided on the ASX website.

The key focus for the MIG will be working towards full readiness for implementation of T+2 in Q1 2016. Initial topics will set key milestones for planned CHES changes, consultation on amendments to the ASX rule books, stakeholder readiness and investor education. The MIG will also discuss learnings from the recent European experience in implementing a T+2 settlement cycle. ASX will track the developments in relation to T+2 in other key markets, including New Zealand and the US which are currently considering moving to T+2.

The first meeting is scheduled for early December 2014, with subsequent meetings being held quarterly. Meetings may be held more frequently depending on the timing of major deliverables and as the to the transition date approaches.

Following this meeting and the receipt of feedback from the Business Committee on the proposed changes to the batch settlement cut-off, ASX will release a market notice advising the market of the change to the batch cut-off time, the target implementation date for T+2 and the date of the first MIG meeting.

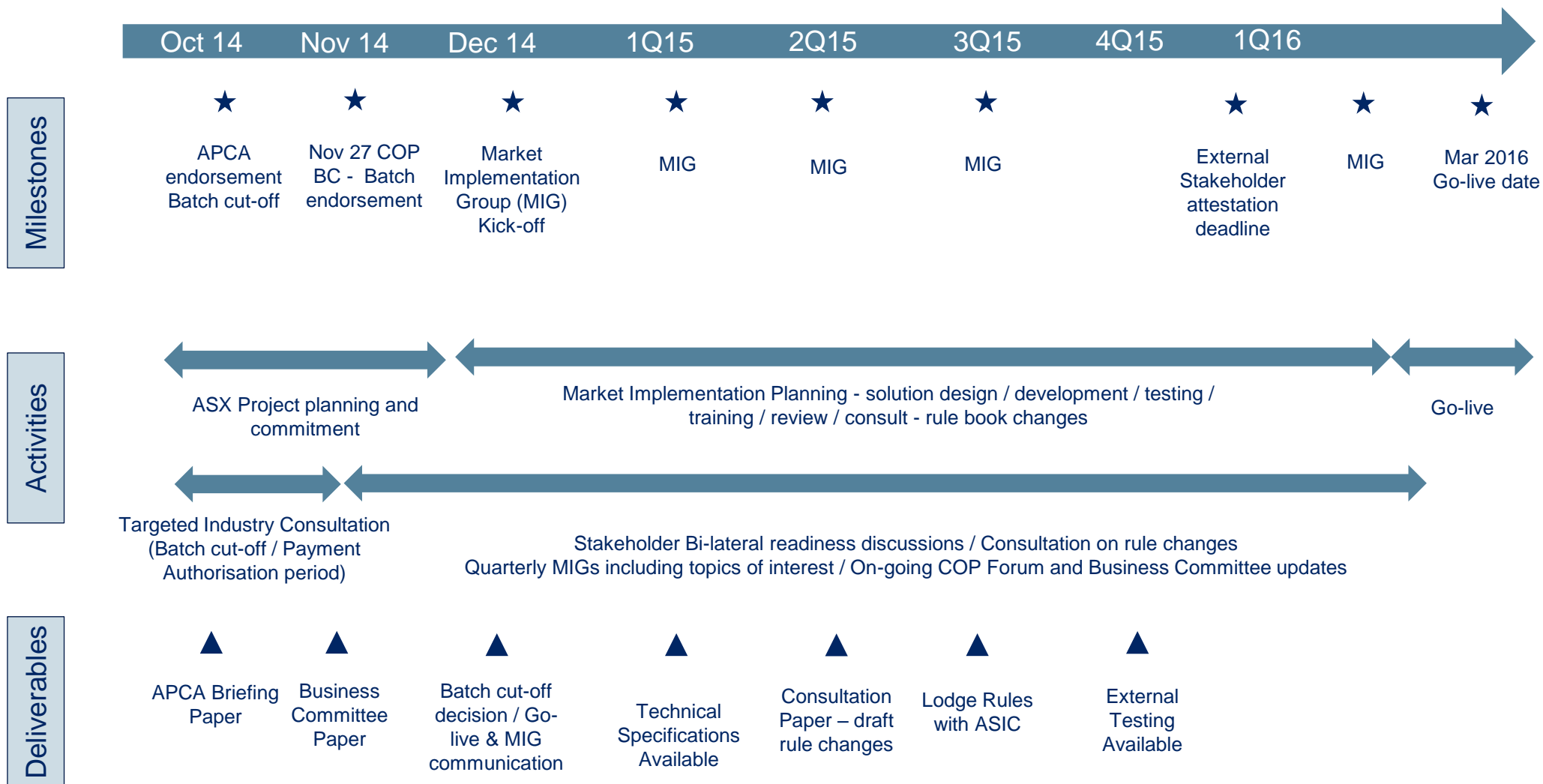
QUESTIONS FOR THE BUSINESS COMMITTEE

- Does the Business Committee endorse the proposed change of batch cut-off time to be introduced together with a T+2 settlement cycle?
- Is the Business Committee comfortable for ASX to target a date in March 2016 for the implementation of T+2?

Attachments

Attachment A – Proposed Roadmap

T+2 – Proposed Stakeholder Roadmap



BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 3B

Topic	Clearing Participant Structures – Considerations for Principal to Principal Clearing
Date of the Meeting	27 November 2014
Purpose of this paper	To update the Business Committee on workshops examining the considerations for, and the potential development of, a principal to principal clearing model.
Action required	To note the agenda paper.

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.

PHASE 1 REGULATORY CLARITY: STATUS UPDATE

At the 27 August Business Committee meeting, there was agreement that a smaller working group would be established to progress phase 1, and provide the basis for ASX and interested participants to jointly engage with ASIC on these issues.

The first Workshop was held on 14 October 2014 and was attended by representatives of 5 Clearing Participants. It was agreed that further bilateral meetings would be held to progress the analysis of how P2P clearing arrangements would work operationally in relation to the flows of monies and stock. This would then provide the basis for the required regulatory 'look through' analysis.

NEXT STEPS

Bilateral meetings are being undertaken in November and December 2014. Following these meetings, a further meeting of the working group is planned for 11 December 2014.

Upon completion of the operational analysis of how P2P clearing arrangements would work in practice, further workshops will be arranged with the relevant representatives of the working group to progress the regulatory analysis. Undertaking the regulatory analysis will be important as transitioning to a new model would be a large piece of work involving significant regulatory challenges.

Completion of the analysis and preparation of a joint regulatory briefing is targeted to be completed in Q1 2015. An update will be provided to the Business Committee at its March 2015, prior to the working group commencing engagement with ASIC.

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 3C

Topic	Corporate Actions STP Phase I – Post Implementation Update
Date of the Meeting	27 November 2014
Purpose of this paper	To provide the Business Committee with an update on post-implementation action items following the go-live of Corporate Actions STP Phase I project.
Action Required	To note the agenda paper.

BACKGROUND

The Corporate Actions STP initiative went live on 22 September 2014, with delivery of four corporate action events: dividends; interest payments; reorganisations; and capital returns. These corporate action events account for around two-thirds of corporate action volumes announced by issuers and processed by ASX. The new announcement process will become mandatory for listed entities on Monday, 23 March 2015 (six months after go-live). This will ensure 100% STP coverage for these corporate action events.

To date, 13 issuers have 'early adopted' and used the new process (10 dividends and 5 interest payments). The benefits of the using the new process include:

- a reduction in time for the review of announcements by ASX Market Announcements Office and the release of the equivalent PDF announcement to market;
- a broader set of data being available in structured format for each corporate action; and
- delivery of corporate action notifications in the new ISO 20022 format via SWIFT or ASX Net within as little as 5 seconds from the release of the equivalent PDF announcement to market. This compares to a 2 hour turnaround for the existing ReferencePoint intra-day and end of day products.

WORKING TOWARDS MANDATORY ADOPTION

ASX's priority post go-live has been to support issuers in the use of the new online forms and to address any technical issues experienced in the new end-to-end process. To further accelerate adoption of the new service by issuers, an article has been included in the Listed@ASX November newsletter. The article includes interviews with 2 early adopter issuers and a custodian. ASX will continue to encourage early adoption and readiness by issuers for the 23 March 2015 deadline by conducting training webinars, which are planned for December 2014 and February 2015.

ASX has also been working through a number of minor post go-live items that require development and testing prior to implementation. The action items are a combination of both actions which were postponed to post-go-live and responses to suggestions made by customers following implementation. It is expected that these items will be delivered by December 2014. A number of ASX market data customers are trialling the new ISO 20022 corporate actions notification service. ASX is working with these customers to further refine the ISO 20022 format messages where possible to meet customer expectations and STP requirements.

NEXT STEPS

Following the feedback received in the 7 May 2014 Business Committee meeting, ASX has reviewed the potential for a Corporate Actions Phase 2. Initial estimates suggest that an end-to-end STP solution for the ten remaining corporate action types would be of significant scale and that it may not be feasible for all remaining corporate action types given the complexity of providing STP to issuers for input for some of these remaining corporate action events. Initial

discussions with customers have also suggested a divergence of views in terms of the phase 2 solution which would add most value:

- Some customers have encouraged ASX to provide an end-to-end STP solution for five of those ten remaining corporate action types, which together total 21% of volume. This is consistent with what was discussed in the 7 May 2014 Business Committee meeting.
- Some other customers have encouraged ASX to instead provide an STP solution for the feedback loop for the corporate actions delivered in phase 1. This would involve an STP solution from issuer to investor and back, which would remove significant and manual paper-based processing for those customers.

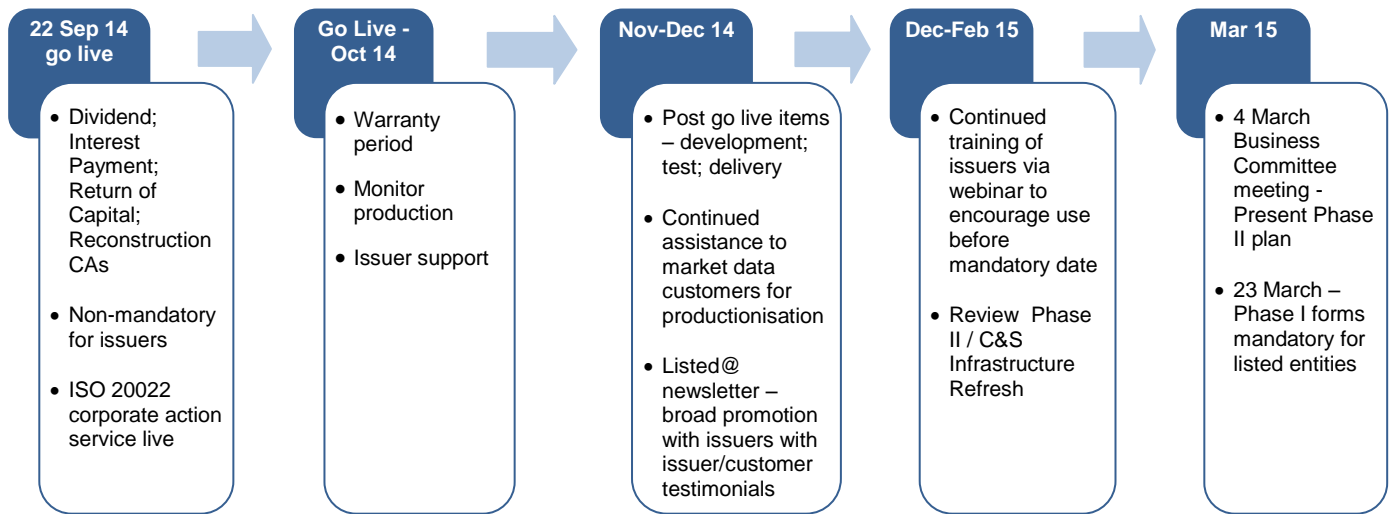
At the proposed 4 March 2015 Business Committee meeting, ASX will provide an update on its infrastructure refresh, including CHES replacement. This meeting will also discuss the potential for any further Corporate Action STP initiative prior to the replacement of CHES based on whether risk magnitude and/or event volumes could feasibly support the development of a single STP event message prior to CHES replacement and further discussions with customers relating to which phase 2 solution of those outlined above would add most value.

The attached timeline summarises ASX's work with issuers and market data customers on the post-implementation action items, and in reviewing the potential for any further Corporate Action STP initiative prior to the replacement of CHES.

Attachments

Attachment A – Corporate Action STP Timeline

CORPORATE ACTIONS STP POST IMPLEMENTATION TIME LINE



BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4B

Topic	ASX Clear ESMA Recognition and Standard & Poor's Credit Rating
Date of the Meeting	27 November 2014
Purpose of this paper	To update the Business Committee on ASX Clear's Standard & Poor's (S&P) credit rating and the progress of its application to ESMA for recognition as a CCP under EMIR.
Action Required	To note the agenda paper.

SUMMARY

It is expected that ASX Clear, as well as ASX Clear (Futures), will be amongst the first non-EU clearing houses to be recognised under the European regulatory framework. To obtain recognition in Europe and be regarded as a "qualifying central counterparty" (or QCCP), ASX Clear will be required to meet revised FSS supplementary guidance from the Reserve Bank of Australia, including a move to a "cover 2 plus affiliates" capital and liquidity default management standard by the end of March 2015.

On 12 November 2014, ASX announced that ASX Clear has received an AA- long-term and an A1+ short-term credit rating from Standard & Poor's (S&P). These ratings are consistent with the ratings for ASX Limited and ASX's derivatives clearing house, ASX Clear (Futures), received in February 2014. The ASX media release announcing the S&P credit rating for ASX Clear is provided in Attachment A.

BACKGROUND

On the basis of revised supplementary guidance on the Financial Stability Standards (FSS) issued by the RBA on 27 October 2014, the European Commission announced on 30 October 2014 that the Australian regulatory regime for CCPs was equivalent to Europe. This equivalence decision satisfies one of the key pre-conditions of the European regulator (ESMA) making a final decision on ASX Clear and ASX Clear (Futures) applications for recognition. Recognition under EMIR will enable ASX Clear and ASX Clear (Futures) to both be regarded as a 'qualifying central counterparty' (or QCCP) under EU bank capital regulations and so provide lowest regulatory capital outcomes for EU headquartered clearing participants.

TIMELINE AND IMPACT OF RECOGNITION

At this stage, ASX does not have a clear time line for the final determination by ESMA on ASX Clear's application. While ASX Clear will be required to meet the revised FSS supplementary guidance, ASX does not expect ESMA to apply any conditions on ASX Clear's recognition.

The main impact of the FSS revised supplementary guidance for ASX Clear will be the move to a cover 2 plus affiliates capital and liquidity standard. This will require ASX Clear to have sufficient funds to manage the default in stressed market conditions of the two clearing participants (including any affiliated clearing participants) with the largest exposures to ASX Clear. Analysis by ASX Clear has confirmed that, at the level of activity and exposure experienced in the last few years, the current default fund of \$250 million is sufficient to meet the cover 2 capital standard. ASX Clear will increase its available liquid resources from \$300 million to \$400 million to meet the cover 2 liquidity standard. ASX Clear will formally move to a cover 2 standard for both capital and liquidity by the end of March 2015.

One implication of the move to a cover 2 capital standard is that ASX Clear will need to recalibrate stress test exposure limits (STELs) so that the maximum STEL given to any clearing participant (including any affiliates) is reduced from \$250 million to no more than \$125 million. If the reduced STELs had applied in the first 10 months of 2014, the number of additional initial margin (AIM) calls would have increased from 10 to 38 and impacted seven clearing participants. One clearing participant would have been responsible for 23 of those further 28 AIMs calls. The average AIMs call would also rise from \$9 million to \$18 million. ASX will bilaterally discuss the impact on affected clearing participants over the next few weeks.

Other actions that ASX Clear will take to meet the RBA's revised supplementary guidance are:

- Establish a Risk Consultative Committee for ASX Clear (by end March 2015).
- Provide operational arrangements that will enable clearing participants to offer their derivatives customers the choice to hold excess customer collateral for derivatives directly with the CCP (by end June 2015).

Attachments

Attachment A – ASX Media Release announcing ASX Clear S&P credit rating



MEDIA RELEASE

12 November 2014

ASX Clear receives 'AA-' long-term credit rating from Standard & Poor's Commits to higher regulatory standards

ASX today announced that its clearing house for Australia's equity market, ASX Clear, has received a 'AA-' long-term and 'A1+' short-term credit rating from Standard & Poor's (S&P). These ratings are consistent with the ratings for ASX Limited and ASX's derivatives clearing house, ASX Clear (Futures), received in February 2014. The three ratings confirm ASX's position as one of the highest quality exchange groups in the world.

ASX also announced that ASX Clear will be held to a higher regulatory standard for its financial resources. This reflects its application for regulatory recognition in the European Union (EU), which requires that ASX Clear holds a larger default fund. ASX Clear's default fund is already sufficient to meet the higher standards.

The commitment by ASX Clear to meet the standards will particularly benefit European-headquartered banks, which will be able to operate in Australia and serve their customers in an efficient way. This helps maintain the global relevance and competitiveness of Australia's financial markets.

Elmer Funke Kupper, ASX Managing Director and CEO, said: "Our commitment to meet the highest standards in both clearing houses is important for end-investors and for domestic and international investment banks that operate in Australia. It provides them with the confidence that they are operating within a world-class and well-capitalised infrastructure, which is based in Australia and governed under Australian law. The 'AA-' credit rating that S&P assigned to ASX Limited and both our clearing houses, confirms the strength of ASX's balance sheet and risk management practices.

"Over the last two years, ASX has made significant investments in Australia's clearing and post-trade infrastructure. ASX's business model, size and profitability allow it to meet the highest regulatory standards, efficiently service its domestic and international clients, and make the investments needed to ensure that Australia's financial markets remain globally competitive."

Background

ASX Clear is the central counterparty (CCP) for Australia's equity market, including cash equities and equity options. ASX Clear (Futures) is the CCP for Australia's futures and over-the-counter derivatives market.

ASX's clearing houses play a critical role in financial markets by becoming the central counterparty to all transactions – the buyer to every seller and the seller to every buyer. This reduces the risk that investors may be impacted by a default of a bank or broker.

ASX Clear and ASX Clear (Futures) have applied to the European regulator for recognition under the European Market Infrastructure Regulation (EMIR). Recognition under EMIR will enable ASX Clear and ASX Clear (Futures) to provide clearing services to clearing participants established in the EU and to be regarded as a 'qualifying central counterparty' (or QCCP) under EU bank capital regulations.

On 30 October 2014, the European Commission determined that Australia's CCP regime is equivalent to the European regime in EMIR. This satisfies an important precondition for recognition of both CCPs under EMIR, and follows the Reserve Bank of Australia (RBA) updating the interpretation of its Australian Financial Stability Standards to clarify that they are equivalent to the European standards.

The RBA's interpretation of its standards clarifies that ASX Clear will be held to higher standards for its financial resources and liquidity – known as 'Cover 2'. Cover 2 requires CCPs to maintain pre-funded financial resources and liquidity arrangements sufficient to cover obligations arising in the event of the default of the two largest participants and their affiliates in extreme market conditions. ASX Clear (Futures) already operates to a Cover 2 standard.

No additional capital is required to meet the new standard. ASX raised \$553 million of capital in June-July 2013, most of which was used to support ASX's two clearing houses. ASX Clear has paid-in capital of \$250 million, sufficient to meet the higher standard. The increased liquidity requirement for ASX Clear is not expected to have a material impact on the financial performance of the ASX Group.

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BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5A

Topic	Operational Improvements to the Code of Practice
Date of the Meeting	27 November 2014
Purpose of this paper	To inform the Business Committee of the proposed operational improvements to the Code of Practice, including changing the frequency of updating the international cost benchmarking to every two years.
Action required	The Business Committee is invited to provide feedback on the proposal to update the international cost benchmarking every two years and the other proposed operational improvements to the Code of Practice.

PROPOSED AMENDMENTS TO THE CODE OF PRACTICE

ASX will consult on proposed operational improvements to the Code of Practice (the Code) ahead of any decision on changes to the policy for the market structure for cash market clearing. This will provide stakeholders with the opportunity to properly consider the changes that ASX proposes and allow proper consideration of any feedback. If the Government makes a decision to introduce competition in cash market clearing, ASX will again review the Code in light of the decision and any other policy changes.

Irrespective of what decision is made on the market structure for cash market clearing, ASX plans to continue to engage with its customers through the Forum and the Business Committee in 2015.

In its first year of operation, the Code has provided for a number of tangible outcomes for the industry, including:

- A commitment to introduce a T+2 settlement cycle for the cash market in Q1 2016.
- A commitment to introduce global messaging standards with the replacement of CHES.
- Quarterly fee and activity level reporting for cash market clearing and settlement participants.
- Introduction of tiered capital requirements for general clearing participants.
- Improved transparency with the publication of cash market clearing and settlement management accounts.
- Improved transparency of the operational performance of cash market clearing and settlement services.

Following the first year of operation, a small number of operational and administrative improvements to the Code have been identified. Feedback on the proposed improvements will be sought from the Forum, Business Committee, the Council of Financial Regulators and other industry stakeholders. ASX is proposing to improve the processes under the Code as follows:

- Moving from a minimum of three Forum meetings per year to bi-annual Forum meetings. After a year of operation of the Forum, ASX proposes that the Forum should meet twice a year rather than the current arrangement of three meetings a year to ensure that meetings remain relevant and engaging for Members. ASX considers that the types of issues that should be taken to the Forum for discussion can be accommodated in two meetings per year.
- Moving from three Business Committee meetings per year to quarterly meetings. Given the effectiveness of the Business Committee in providing input to progress initiatives and the level of engagement of Business Committee members over the past 12 months, ASX considers that there is merit in moving to quarterly meetings to support the Forum.

- Changing the governance requirements such that Technical Committees established under the Code reports to the Business Committee rather than the Forum. ASX considers that it is more appropriate for the Technical Committee to report to the Business Committee given the detailed and technical nature of the advice likely to be provided by the Technical Committee.
- Changing the definition of 'Agencies' so that it refers to the Council of Financial Regulators (CFR). This 'future proofs' the drafting for any changes in membership of the CFR. As a practical matter, the RBA as the Secretariat for CFR is ASX's liaison point for engagement on the Code of Practice.
- Changing the requirement for ASX Clear and ASX Settlement to annually commission independent international cost benchmarking to a requirement that ASX Clear and ASX Settlement commissions updated international cost benchmarking from an independent consulting firm every two years. The basis for this is the Oxera international benchmarking was a significant piece of work, there is other recent benchmarking information available with the release of a report by Market Structure Partners (MSP) and minimal new information is expected from repeating this analysis every year.
 - In October 2014, another benchmarking report commissioned by 10 Australian clearing participants was prepared and released by MSP. The findings of the two reports were largely consistent in benchmarking cash market clearing costs where the same markets were covered. The MSP analysis is more narrowly focused on European markets and excludes markets in the Asian region. The other key differences between the reports is that the MSP report does not account for the cost of capital for the purpose of financing the default fund, it does not take appropriate account of scale impacts and it excludes some settlement costs (custody costs) in other markets.
- A new requirement is proposed for ASX Clear and ASX Settlement to report to the Forum each year that an updated benchmarking report is not produced on any material changes to ASX Clear and ASX Settlement's tariff structures and fee levels, and the impact of those changes on users.
- Remove the requirement for an annual internal review regarding the operation of the Code on the basis that there is a requirement for an annual review by an independent external auditor.
- Direct the external review of the operation of the Code to the core provisions and commitments:
 - ASX's compliance with the operation of the Forum described in clause 2.4.
 - ASX's compliance with transparent and non-discriminatory pricing of clearing and settlement service described in clauses 3.1 to .34, including ASX's compliance with the cost allocation principles described in clause 3.2.
 - ASX's compliance with transparent and non-discriminatory access to clearing and settlement services described in clauses 4.1 to 4.4.
 - 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.
- change the requirement for 'users of clearing and settlement services' to be consulted as part of the annual external review to Forum Members being consulted as part of the external review.

The proposed amendments to the Code are marked-up in Attachment A.

UPDATE FROM 1 OCTOBER 2014 FORUM MEETING

At its 1 October 2014 meeting, the Forum discussed the proposed operational improvements to the Code of Practice. The Forum was supportive of having the Technical Committee report to the Business Committee, increasing the number of Business Committee meetings from three to four meetings per year and reducing the number of Forum meetings from

three meetings to two meetings per year and. This was in recognition of the effectiveness of the Business Committee in providing input to ASX to progress initiatives.

In that meeting, the Forum requested that ASX seek feedback from the Business Committee in relation to the proposal to change the frequency in commissioning updated international cost benchmarking from every year to every second year.

On the basis that the Forum has endorsed the change in frequency of Forum and Business Committee meetings, the meeting dates for the Forum and Business Committee in 2015 are set out below.

Additional meetings will be called if there is a change in the market structure or policy.

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 – Marked-up amendments to the Code of Practice

9 August 2013

Code of Practice for Clearing and Settlement of Cash Equities in Australia

ASX Limited

ASX Clear Pty Limited

ASX Settlement Pty Limited

1 ASX's commitment

ASX is committed to ensuring Australia's clearing and settlement infrastructure is efficient, well-capitalised and well-regulated. ASX recognises the need to work with users to deliver world-class financial infrastructure for Australia and share the benefits of investment and growth with its customers.

1.1 Purpose of this 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.
- (b) This Code builds on the principles contained in the Customer Charter of ASX in which ASX commits to:
 - (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
 - (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.
- (b) ASX is committed to sharing with users of its services benefits and efficiencies arising out of the ASX group structure.

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,
 as described and represented by the diagram in Appendix A.
- (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.
- (c) This Code does not deal with clearing and settlement services supporting either exchange-traded or OTC derivatives markets or OTC debt markets.

1.4 Development of this 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.
- (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.

2 The Forum

ASX is committed to meaningful engagement with users in respect of the ongoing development of the clearing and settlement infrastructure of the cash equity market in Australia. ASX recognises the importance of engagement with users to help ensure that the design and functionality of the clearing and settlement infrastructure of the cash equity market in Australia continues to meet users' needs and is consistent with relevant international best practice.

2.1 Establishment

- (a) ASX will establish an advisory forum (**the Forum**) within 3 months of the commencement of this Code.
- (b) The first meeting of the Forum will be held no later than 30 November 2013.

2.2 Objectives

- (a) The objectives of the Forum are:
 - (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 on their strategic plans 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 CHESSE.
- (b) Members of the Forum will not consider or discuss any competitively sensitive information in contravention of the *Competition and Consumer Act 2010* (Cth).¹

2.3 Membership

- (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.
- (b) The Forum will consist of:
 - (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;
 - (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
 - (13) a non-executive member of the Board of ASX Limited.
- (c) ASX will invite users to nominate representatives as part of the selection process for appointment to the Forum.
- (d) ASX will consult users on the nominees for the Forum to inform the selection process.
- (e) ASX will appoint members to the Forum for an initial 2 year term, subject to continued employment with the organisation by whom they were nominated.
- (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).
- (g) ASX will appoint members to the Forum based on their skills and experience.
- (h) A member of the Forum cannot appoint a delegate or alternate without the prior approval of the Forum Chair.

¹ **Explanatory Note:** ASX Clear and ASX Settlement recognise that the Forum may comprise members who are competitors or potential competitors of each other and of ASX Clear and ASX Settlement. This provision is designed to remind members of the Forum of their obligations under the *Competition and Consumer Act 2010* (Cth).

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**).
- (b) The Forum will meet at least ~~twice~~ a year.
- (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. ~~The Business committee will meet quarterly.~~
- (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 ~~Business Committee~~.
- (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.
- (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.
- (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.
- (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.
- (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.
- (j) The Forum Chair will circulate a draft of the report to Forum members.
- (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.
- (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 may also report on other issues of interest to the Forum.
- (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:
- (1) the response to any material matters raised by the Forum;
 - (2) the recommendations that are being followed;

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- (3) the recommendations that are not being followed; and
- (4) the reasons for these decisions.

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.

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.
- (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.
- (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.

3 Pricing

The structure of the ASX group allows for the efficient delivery of services to users. In pricing those services, ASX is committed to the principles of transparency and non-discrimination.

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.
- (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.
- (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:
 - (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.
- (d) ASX will publish all information on the ASX website.

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.
- (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:
 - (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; and
 - (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.
- (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.
- (d) The published management accounts will be subject to review by an external auditor.

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.
- (b) Transfer pricing: ASX Clear and ASX Settlement will charge all users, including ASX-affiliated entities, non-discriminatory prices for materially equivalent services.

3.4 Pricing comparison

- (a) ~~On 23 June 2014, ASX released the Oxera Global Cost Benchmarking of Cash Equity Clearing and Settlement Services Report (the Oxera Report). The Oxera Report provided an international cost comparison of cash market clearing and settlement services. Every two years from the release of the Oxera Report, ASX Clear and ASX Settlement will commission an updated benchmarking report from an independent consulting firm.~~
- (b) ~~Subject to clause 3.4(a), ASX Clear and ASX Settlement will commission and produce the updated benchmarking report to the Forum and the Agencies, and will publish the report on the ASX website.~~
- (c) ~~In each year that an updated benchmarking report is not produced, ASX Clear and ASX Settlement will report to the Forum on any material changes to their tariff structures or fee levels, and the impact of those changes on users.~~

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4 Access to clearing and settlement services

ASX is committed to providing access to clearing and settlement services on transparent and non-discriminatory terms and to responding to user requests for access in a fair and timely manner.

4.1 Standard access to clearing and settlement services

- (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;
 - (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; and
 - (3) for ALMOs to apply for the provision of settlement facilitation services, pursuant to the Settlement Facilitation Service Agreement.
- (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.

4.2 Service level agreements

- (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 competitive market and ASX Clear and ASX Settlement's licence obligations.

4.3 Responsiveness to requests

- (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.
- (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.
- (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.

4.4 Dispute resolution

- (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.

- (b) Dispute resolution processes will apply to disputes:
- (1) with AMOs and ALMOs which are seeking standard access to clearing and settlement services as governed by this Code (**pre-access disputes**); and
 - (2) with AMOs and ALMOs which are being provided with the clearing and settlement services governed by this Code (**post-access disputes**).
- (c) The dispute resolution processes applying to pre-access disputes will be incorporated into the protocols described in clause **4.3(c)**
- (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:
- (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; and
 - (3) a procedure to escalate any disputes which have not been resolved by negotiation to an independent arbitrator for a final binding decision.
- (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.

5 Review

ASX commits to undertake regular reviews in respect of the operation of the Code.

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 <#>the effectiveness of the Forum in meeting the objectives set out in clause **2.2**;¶
 <#>ASX's compliance with the cost allocation principles described in clause **3.2**;¶
 <#>ASX's compliance with the access request protocols described in clause **4.3(c)** relating to requests for access to clearing and settlement services; ¶
 <#>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¶
 <#>ASX's pricing to verify that there is no discrimination between ASX-affiliated entities and other users of clearing and settlement services. ¶
 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.¶

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

(1) ~~ASX's compliance with the operation of the Forum described in clause 2.4;~~

(2) ASX's compliance with ~~transparent and non-discriminatory pricing of clearing and settlement services described in clauses 3.1 to 3.4, including ASX's compliance with~~ the cost allocation principles described in clause 3.2;

(3) ~~ASX's compliance with transparent and non-discriminatory access to clearing and settlement services described in clauses 4.1 to 4.4; and~~

(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.

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.

- (b) ~~Forum Members~~ will be consulted as part of the reviews.
- (c) 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.
- (d) 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.
- (e) Comments or complaints should be addressed to the attention of the office of the Chief Executive Officer.
- (f) 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.

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6 Protection of confidential information

ASX Clear and ASX Settlement will not misuse any confidential information acquired in the course of providing clearing and settlement services.

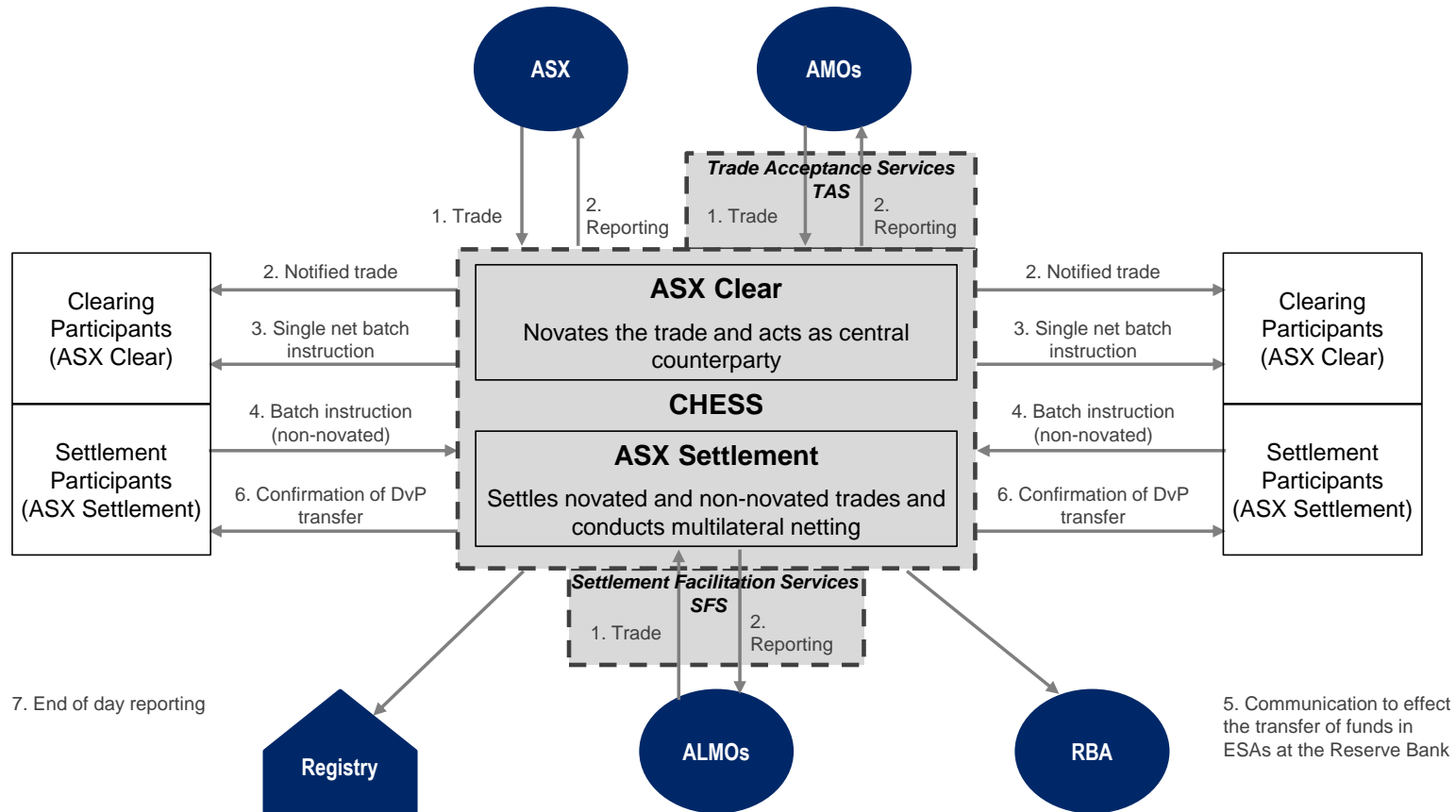
- (a) ASX Clear and ASX Settlement will comply with ASX's published Conflict Handling Arrangements policy. Any confidential or competitively sensitive information that is acquired in the course of providing clearing and settlement services will only be used for the purpose for which it was provided.
- (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.

- (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.

7 Operation of Code

- (a) This Code commences operation on 9 August 2013.
- (b) Changes to the Code will not be made without prior consultation with the Forum, other users and the Agencies.
- (c) This Code will be interpreted consistently with:
 - (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.

Appendix A: Cash Market Trade to Settlement Flow



Glossary

The meanings of the terms used in this Code are set out below.

Term	Meaning
ACCC	Australian Competition and Consumer Commission.
Agencies	the Council of Financial Regulators.
ALMO	approved listing market operator.
AMO	approved market operator.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ACN 008 624 691) and as the context requires the ASX group of companies including ASX Clear and ASX Settlement.
ASX Clear	ASX Clear Pty Limited (ACN 001 314 503).
ASX Settlement	ASX Settlement Pty Limited (ACN 008 504 532).
CHESS	the Clearing House Electronic Subregister System.
Conflict Handling Arrangements policy	the policies published on the ASX website for the management of potential conflicts of interest, as amended from time to time.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Customer Charter	the customer charter published by ASX in 2012.
Forum	the advisory forum on clearing and settlement for the Australian cash equity market established by this Code.

Deleted: ACCC,

Deleted: ASIC, RBA and Treasury

Term	Meaning
Forum Chair	has the meaning given in clause 2.4(a).
OTC	over the counter.
RBA	Reserve Bank of Australia.
Settlement facilitation service	<p>settlement arrangements provided to approved listing venues other than ASX (ALMOSs) in respect of CHESS-eligible financial products listed on the markets of those ALMOs.</p> <p>These arrangements consist of a transfer facilitation service and a delivery versus payment facilitation service (see http://www.asx.com.au/settlement/settlement-arrangements-for-approved-market-operators.htm).</p>
Settlement Facilitation Service Agreement	the agreement entered into between ASX Settlement and a listing market operator in respect of the provision of settlement facilitation services as amended from time to time.
TAS	<p>trade acceptance service.</p> <p>This service was developed by ASX to enable trading venues that competed with ASX's trading business to have a standard access service for clearing and settlement (see http://www.asx.com.au/clearing/trade-acceptance-service.htm).</p>
TAS Legal Terms	the legal terms for the provision of a trade acceptance service to Australian financial market licensees in respect of CHESS-eligible ASX-quoted financial products dated 14 June 2011 as amended from time to time.

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5B

Topic	Forward Work Program
Date of the Meeting	27 November 2014
Purpose of this paper	To update the Business Committee on the forward work program extending to November 2015.
Action Required	The Business Committee is invited to review completed items and provide feedback on the future topics for discussion and the prioritisation.

OVERVIEW

The forward work program covers the period of meetings of the Business Committee from November 2014 to November 2015 and is included in Attachment A. The Business Committee provided input into the forward work program at the 27 August 2014 meeting.

The forward work programme reflects the request by some Business Committee members to revisit phase II of corporate actions STP in the context of the cash market post-trade services infrastructure roadmap.

The 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

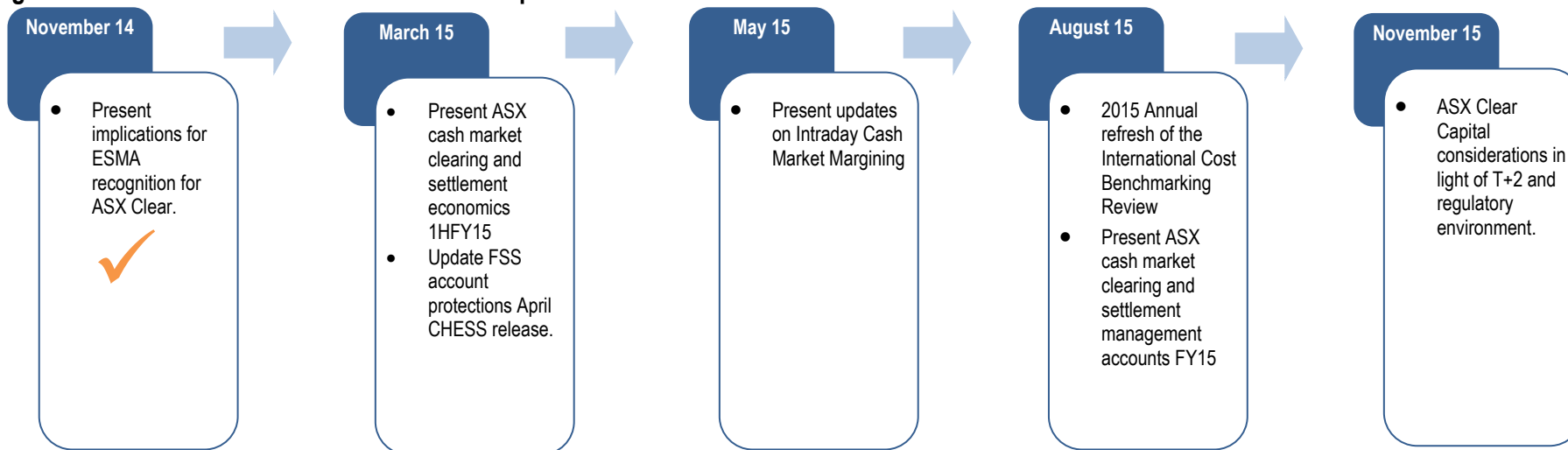
- Does the draft forward work program extending to November 2015 continue to reflect industry priorities?
- Are there additional topics that should be included in the draft forward work program?

Attachments

Attachment A – Forward work program - November 2014 to November 2015

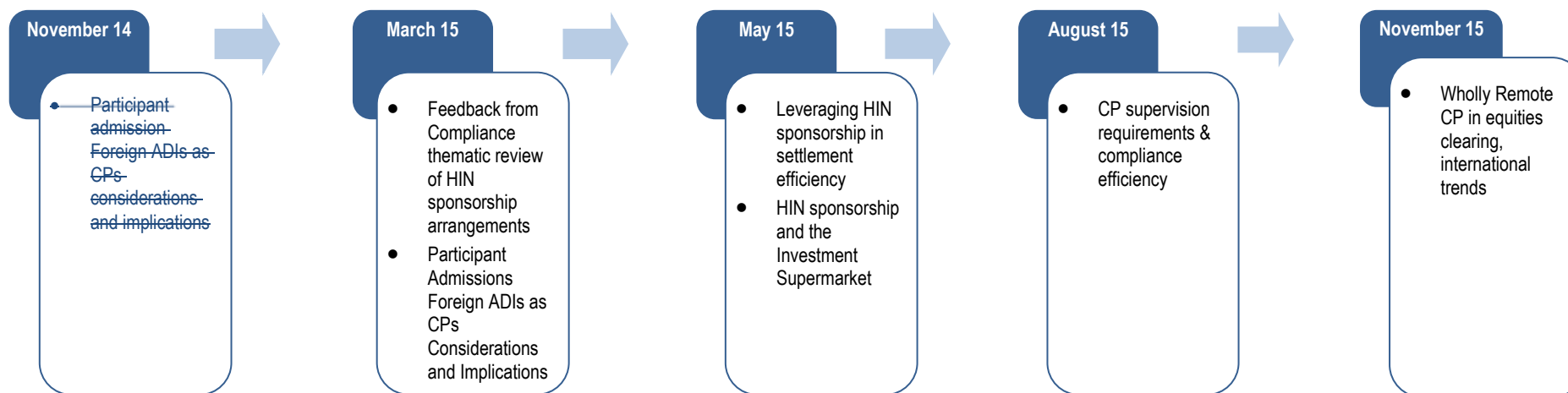
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
1. Capital Efficiency and industry economics	To minimise the capital costs for ASX's customers whilst maintaining robust CCP capital support	a. ASX cash market clearing and settlement economics	ASX to publish management 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



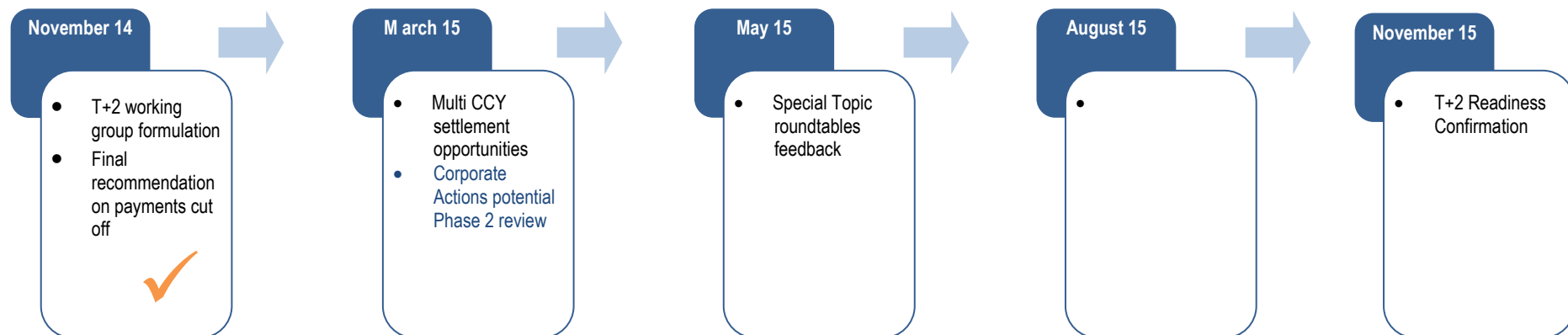
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
2. Participant Structure, Flexibility & Efficiency	To align ASX's participant access regime with its customers' evolving business models	a. Participant structures, admission requirements	ASX will continue to explore additional 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



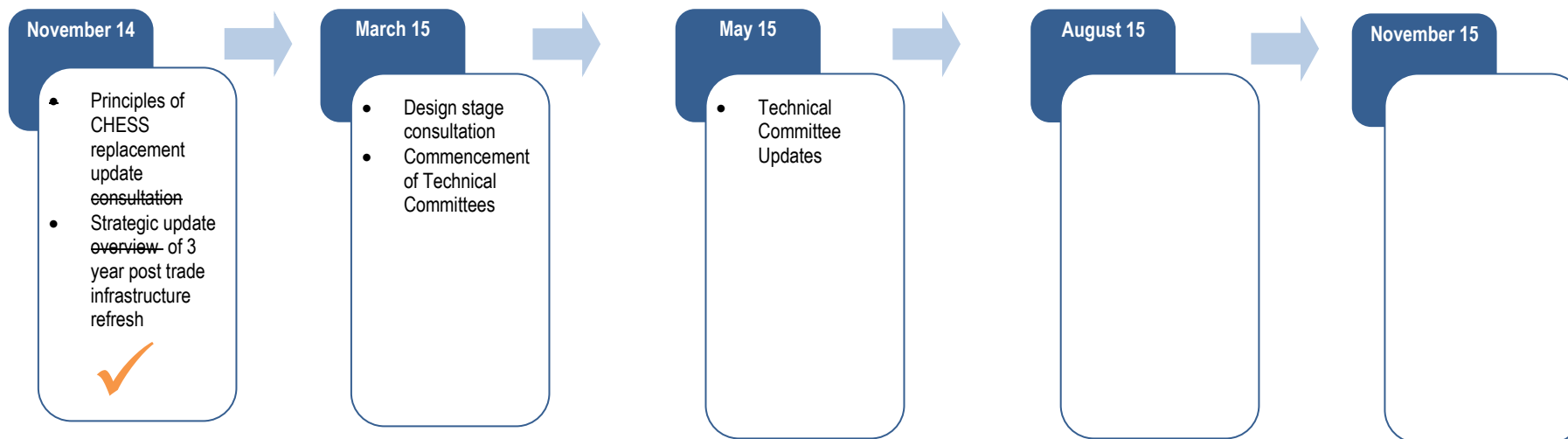
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
3. Service Innovation	To deliver global best practice cash market clearing and settlement services	a. Corporate action straight through processing	The ASX will present opportunities for future and continued enhancements 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 5C

Topic	Minutes from 27 August 2014 meeting
Date of the Meeting	27 November 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 27 August 2014 meeting.
Action required	To approve the minutes and report to the Forum from the 27 August 2014 meeting.

Draft minutes and the draft report to the Forum from the 27 August 2014 Business Committee meeting were emailed to all members of the Business Committee on 18 September 2014 for comments by 23 September 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 23 September 2014.

A copy of the minutes and report to the Forum from the 27 August 2014 meeting are provided in Attachments A and B.

ATTACHMENTS

Attachment A – Minutes from the 27 August 2014 Meeting

Attachment B – Business Committee Report to the Forum from the 27 August 2014



MINUTES OF THE BUSINESS COMMITTEE
WEDNESDAY, 27 AUGUST 2014
ASX LIMITED
LEVEL 1, 20 BRIDGE STREET SYDNEY

- 1. Introduction and update on outcomes of Forum meeting**
- 2. Service Performance**
 - 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**

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
 - b. Transitioning to a T+2 settlement cycle in Q1 2016
 - c. Clearing participant structures – considerations for principal to principal clearing
 - d. Guidance on outsourcing and offshoring
- 5. Regulatory Updates**
 - a. ASX Clear recovery plans
 - b. ASX Clear and European capital risk weightings
 - c. ASX Clear Operating Rules Update
- 6. Administration**
 - a. Forward work program
 - b. Code of Practice review and proposed Business Committee meeting dates
 - 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	Head of Compliance
BBY Ltd	Mr Arun Mahraj	Chief Executive Officer
BNP Paribas	Mr Justin Christopher	Chief Operating Officer
Chi-X Australia	Mr Jamie Clark	Director Markets and Operations
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 Russell Deal	Chief Operating Officer
HSBC	Mr Andrew Bastow	Head of Securities Services
J.P. Morgan (by telephone)	Mr Samuel Mann	Business Manager, Australia Equities
Goldman Sachs	Mr Greg Hanlon	Head of Operations
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Morgans	Ms Sue Gye	Manager Operations
Morgan Stanley	Mr Craig McGuire	Head of Operations
Pershing Securities	Mr Rob Forbes	Chief Operating Officer
UBS	Mr Conor Foley	Chief Operating Officer

ASX Management	
Name	Job Title
Mr Tim Hogben	Group Executive, Operations
Mr Alan Bardwell	Chief Risk Officer
Mr Ramy Aziz (Item 3 only)	Chief Financial Officer
Mr Tim Thurman (Item 4 only)	Chief Information Officer
Ms Danielle Henderson	General Manager, Clearing Services
Mr Andrew White	General Manager, Settlement Services
Ms Janine Ryan (Item 5a only)	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 (Item 5a only)	Senior Advisor, Clearing Risk Policy
Mr Con Korkofigas (Item 4c only)	Senior Legal Counsel and Senior Manager
ASX Compliance Management	
Name	Job Title
Ms Fiona Hooymans (Item 4d only)	General Manager, Participants Compliance

APOLOGIES

MEMBERS		
Company	Name	Job Title
NSX	Mr Emlyn Scott	Chief Executive Officer
Patersons Securities	Mr Sam Budiselik	Chief Operating Officer
Bell Potter Securities	Mr Dean Surkitt	Managing Director Retail

The meeting commenced at 12.05pm.

Some of the agenda items were considered out of order. For convenience, they are recorded in the order set out in the Agenda. Attendance for part of the meeting is noted in the attendee section on the preceding page.

AGENDA ITEM 1: INTRODUCTION AND UPDATE ON OUTCOMES OF FORUM MEETING

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

The Chair updated the Committee on the outcomes of the Forum meeting held on 23 June 2014, including:

- The Oxera Consulting presentation of its international cost benchmarking report. There was good discussion of the report's findings and the impact of the different capital structure between ASX's default funds and other exchanges. The Chair noted that ASX had met with a number of participants to review how their fees compared to the average ASX fees set out in the report. The Chair noted there was a standing invitation for all participants to do so.
- The Forum endorsed a recommendation that ASX transition from a T+3 to a T+2 settlement cycle for the cash market in the first quarter of 2016.

AGENDA ITEM 2: SERVICE PERFORMANCE

a. Clearing and settlement services operational 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 March 2014 and June 2014.

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

- CHES and TAS system availability was 100% for both quarters.
- Settlement efficiency was 99.9% for both quarters.
- Twenty five trades on the ASX market had been rejected during the June 2014 quarter.
- Two Chi-X trades submitted through the TAS had been rejected in August. A technical solution has been developed in response.
- Two significant releases occurred during the June quarter. ASX's mFund settlement service commenced in May 2014 and amendments to ASX's timetables for rights issues took effect in April 2014. With the introduction of the new timetables for rights issues, a T+2 settlement cycle had been introduced for special markets. Special market trades have been settling successfully under the new T+2 settlement cycle.

There were no questions on the report.

b. Activity and Fee Reporting for Clearing and Settlement Participants

ASX's Senior Manager, Clearing Services informed the Committee that feedback on the new quarterly reports had been positive. A number of improvements had been identified for future reports. ASX was receptive to receiving further feedback.

The Chair advised that, at this stage, the production of the quarterly reports involved a manual process and that ASX was considering automating the process so that monthly reports could be provided to customers. It would also consider whether the new reporting arrangements for the cash market could be expanded to other ASX services.

AGENDA ITEM 3: MANAGEMENT ACCOUNTS FOR CASH MARKET CLEARING AND SETTLEMENT

ASX's CFO spoke to the management accounts for cash market clearing and settlement, noting that:

- The accounts had been prepared using a consistent methodology to prior periods. ASX's policy for internal cost allocation and transfer pricing for clearing and settlement of cash equities is available on ASX's website.
- PricewaterhouseCoopers had audited the accounts and issued an unqualified opinion.
- Clearing and settlement revenue in FY14 was slightly higher than FY13 as a result of higher volumes. There was no revenue for the TAS as a result of ASX waiving the annual TAS fee under the Code of Practice. Expense growth of 4% was slightly lower than that recorded for the rest of the Group.
- Return on Equity was consistent with the prior year at 11.7% for clearing and 17.5% for settlement.

There were no questions from Members to the CFO.

AGENDA ITEM 4: BUSINESS MATTERS

a. Roadmap for Cash Market Post Trade Services Infrastructure

The Chair introduced the agenda item noting that ASX was seeking to highlight and discuss with the Committee the practical implications of the proposed changes to ASX's cash market clearing and settlement services infrastructure, including the replacement of CHES. Feedback from the Technical Committee was that the technology used to replace CHES should be compatible with international standards and not be a straight like-for-like replacement. The replacement of CHES will impact the timing of future service releases and consideration will need to be given to avoid duplication of effort within CHES and its replacement. It was noted that the CHES replacement project had not commenced.

ASX's General Manager of Clearing Services discussed the draft roadmap, noting that:

- CHES service releases were scheduled for FY14 and FY15.
- The roadmap set out an indicative program for CHES replacement. The design, build and testing of the replacement system was expected to take up to 3 years.
- ASX was seeking Member feedback on the timing and principles underpinning the replacement of CHES before commencing the project.

ASX's CIO discussed the context for seeking participant feedback:

- ASX would be commencing a large technology transformation involving the replacement of its trading platforms. CHES replacement would form part of that program.
- ASX was likely to lock down the existing CHES system from further service releases from mid-2017. ASX was seeking participant feedback in relation to whether a 3-year implementation timeline for CHES replacement was too long.

The Chair invited Committee feedback on the timing of CHES replacement.

A Member noted that a 'big bang' approach to the implementation of the replacement of CHES involved execution risk and asked whether ASX had considered a phased implementation by functional categories and using a third party for development. The CIO advised that ASX would work with a third-party vendor and that ASX would be unlikely to take a 'big bang' approach to implementation. Securities would be transitioned to the new infrastructure in batches, but all functional categories (i.e. clearing, settlement, sub-registry) would need to be implemented

concurrently. This would require that the new and the existing infrastructure running in parallel during the migration phase.

ASX's Group Executive of Operations noted that the Technical Committee had indicated that minimising the overlap where CHES and the new infrastructure would run in parallel would be important in managing costs for participants. The Technical Committee had also advised that a tiered 'go-live' strategy whereby there is a phased approach to transitioning groups of securities to the new infrastructure should help mitigate the complexity and risk of migration, and allowed the migration process to be sped up once the new infrastructure had been demonstrated to be stable. ASX's Group Executive of Operations also noted that the principals that underpin the replacement would determine the timeframe for delivery and that discussion at this point of likely timeframes may be misinformed.

Members provided mixed feedback regarding the project timeframe and timing of implementation. Some Member expressed the view that 3 years was too long and ASX should reduce system specifications to speed up implementation. The Member was concerned about the 3 year project timeframe for CHES replacement on the basis that CHES releases to provide service enhancements would be limited during a part of the project timeframe.

Other Members expressed the view that participants would be focussing on the implementation of a T+2 settlement cycle and new Basel requirements next year and, as such, was comfortable with the proposed timing for implementation of CHES replacement in late 2017. It was noted that knowing when participant testing of the new system will take place and understanding the proposed system changes will be important for participants' to assess their readiness and ability to accommodate the proposed timeframes. It was also noted that 2015 budgets had, in many cases, been committed and Members wished to understand by mid-2015 the changes which were proposed so that any additional work could be incorporated into future budgets.

Members also discussed the principles-based consultation on the key features to be incorporated in the replacement of CHES, which will be undertaken in later in 2014. One Member queried the implications for the TAS. The Chair noted that this would be canvassed in the consultation process, and that the replacement of CHES would be designed with other execution venues in mind rather than just one market as was the case when CHES was originally designed.

The Chair requested that the Technical Committee consider how the implementation methodology and timetable could be designed to take into account existing development commitments for participants. It was suggested that the Technical Committee should meet prior to the Forum meeting in October to provide further feedback on the roadmap and the matters discussed in the meeting. **[Agreed Action 1]**.

The Chair noted that ASX would have a better understanding of customer needs and timing following consultation. Working with industry to decide what the replacement of CHES should look like could take approximately 12 months.

b. Transitioning to a T+2 Settlement Cycle

The Committee noted the agenda paper outlining the key considerations and next steps in changing the batch settlement cut-off time as part of the implementation of a T+2 settlement cycle for the cash market.

The Chair advised that ASX has commenced its detailed T+2 implementation planning and has identified the batch settlement cut-off timing as the current key focus area. ASX had identified a number of potential efficiencies in daily settlement processes and was seeking Member input to understand the impact of a change to the batch cut-off time, including in the (unlikely) instance of an event of default.

ASX's General Manager of Clearing Services noted that changing the batch settlement cut-off to a later time involved trade-offs between settlement efficiency, post-settlement processes and default management. An outline of the options and implications for daily settlement processes was

provided to the Committee for the different batch settlement cut-off times, which ASX was discussing broadly with customers, payment providers and regulators.

A current issue for ASX was understanding existing fixed timeframes for participants and payment providers so that it could consider the provisions of the existing payment provider deeds, the need for settlement finality at 2.30pm and the impact that a compression of the settlement period would have on ASX's ability to manage a situation in the event there was an incident of default.

ASX's Group Executive of Operations described ASX's procedures for processing and monitoring settlement payments and ASX's existing default management.

ASX's General Manager of Clearing Services noted that ASX had met with the RBA and the Australia Payments Clearing Association (APCA) Secretariat, and would workshop with APCA members how the existing processes could be shortened to provide ASX the ability to respond if a payment default occurred. ASX noted that this may be possible without requiring a change to the payment provider deeds between ASX and the banks, but it was possible that changes may be required. ASX would present the outcome of these discussions and put forward a recommendation on the batch settlement cut-off timing at the next Committee meeting [**Agreed Action 2**].

The Chair requested feedback from participants on the options to change the batch settlement cut-off time in advance of the November Committee meeting, and noted that ASX may require participant support in the event payment provider deeds needed to be amended.

The Chair advised that ASX would be forming a T+2 market implementation group to help coordinate implementation and investor education. Members wishing to participate in the implementation group were asked to contact ASX.

c. Clearing participant structures – considerations for principal to principal clearing

The Chair noted that the Committee had agreed at its May meeting 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.

ASX had commenced phase 1 and had sought 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 by implementing P2P clearing arrangements. In this early engagement, ASIC had raised concerns regarding retail client protection issues. It was noted that the analysis of how these concerns could be addressed was a significant piece of work as it would involve a relatively detailed and complicated analysis of the flows of monies and stock in the proposed P2P clearing arrangements and a legal analysis of the impact of such arrangements on client protections and the clearing participant nexus with trading participant clients under the Corporations Act and broader regulatory framework.

ASX's General Manager of Clearing Services noted that if a P2P clearing initiative were to be progressed, it would likely form part of the CHES replacement project given the length of time it would likely take to obtain regulatory approval. Member feedback was requested in the relation to the following:

- What priority should be given to further work on P2P clearing in light of other commitments, including CHES replacement?
- Whether P2P clearing was viable if limited to the cash equities market, or would need to be extended to the ETO market?
- Whether Members would nominate representatives to work with ASX on an operational outline of principal to principal clearing arrangements and a detailed legal analysis?

A Member expressed support for progressing the analysis for P2P clearing arrangements on the basis of the potential for it to provide for greater competition in this market. The Member also did

not consider that P2P clearing would require significant infrastructure development and, as such, should be de-coupled from the CHES replacement project. It was suggested that a sub-set of interested Committee Members should form a working group to work with ASX to progress the proposed operation of P2P clearing and subsequent legal analysis.

There was agreement that a smaller working group would be established to progress the consideration of P2P clearing, and provide the basis for ASX and interested participants to jointly engage with ASIC on these issues. **[Agreed Action 3]**

The Chair invited Members to contact ASX if they wished to participate in the working group.

d. Guidance on outsourcing and offshoring

ASX Compliance's General Manager of Participants Compliance provided background regarding the ongoing trend for activities to be offshored and/or outsourced by participants and advised the Committee that ASX Compliance was preparing a Guidance Note regarding outsourcing and offshoring to inform participants of ASX's expectations for such activities. The Guidance Note would:

- Provide additional information on how ASX Compliance would apply its existing rules and what was considered appropriate.
- Introduce definitions of outsourcing and offshoring. Activities performed by entities within the same corporate group would not be treated as outsourcing, although it would still be treated as offshoring if the activity was being performed outside Australia.
- Set out ASX Compliance's expectations of the due diligence to be carried out by participants, including the higher standards for material outsourcing or offshoring arrangements such as IT systems, core clearing, margining, business continuity and disaster recovery.
- Be released for public comment once internal reviews were completed.

In response to questions from Members, ASX Compliance's General Manager of Participants Compliance advised that the guidance provided in the Guidance Note would be consistent with other Guidance Notes by setting out ASX Compliance's expectations of how participants would comply with existing rules. The Guidance Note was being prepared in light of the existing APRA standards, but also included a number of ASX-specific provisions.

The Chair requested that a draft of the Guidance Note be circulated to Committee members in advance of its release for public consultation **[Agreed Action 4]**.

AGENDA ITEM 5: REGULATORY UPDATES

a. ASX Clear Recovery Plans

ASX's General Manager of Legal informed the Committee about the current status of ASX Clear's proposed recovery plans and upcoming consultation, including:

- ASX Clear was developing recovery plans under the Financial Stability Standards (FSS) for responding to distressed scenarios involving a loss in excess of the existing default fund.
- ASX would be commencing consultation on recovery tool options and ASX's preferred approach for ASX Clear shortly. The consultation paper would include tools based on the existing guidance from CPMI-IOSCO on Recovery of Financial Market Infrastructures.

Members asked a number of questions regarding the operation of emergency assessments and the potential impact of a default on individual participants. ASX's Chief Risk Officer and General Manager, Legal noted that the impact would depend on the type, size and number of defaults. Members wishing to contribute to the consultation process were encouraged to contact ASX.

b. ASX Clear and European Capital Risk Weightings

ASX's Chief Risk Officer informed the Committee about ASX Clear's recent application to ESMA for recognition as a CCP under EMIR, including:

- Recognition of ASX Clear as a Qualifying CCP under EMIR would materially reduce (at group level) the regulatory capital requirements for clearing participants of ASX Clear that are part of subsidiaries of EU regulated banking groups.
- Although ASX had submitted its application, it would consider the implications of ESMA requirements for recognition for the whole market relative to the capital benefits that may be achieved for clearing participants subject to EU regulation prior to proceeding with the application. Europe's 'Cover 2' capital requirements could impact the extent of ASX's ability to reduce capital in the default fund and deliver a cash market clearing fee reduction with the introduction of a T+2 settlement cycle in Q1 2016. A further consideration is whether any conditions that would apply to ASX Clear in obtaining ESMA recognition would be onerous, such as, requiring cash market individual client account segregation.

In response to a question, the Chief Risk Officer confirmed that ASX had modelled ASX's compliance with Cover 2. ASX could currently comply with Cover 2 capital and liquidity requirements while still enabling some level of default fund reduction if the current low volatility environment remained when the market moved to T+2. However, higher volatility in the future could impact ASX's ability to reduce capital in the default fund whilst retaining a sufficient level of capital for a Cover 2 standard.

The Chair noted that ASX would closely monitor the progress of the application, and that a decision on whether to proceed with the application will depend upon any conditions imposed by European regulators and the financial impact of those conditions for the whole market. The Chair advised that ASX would provide an update to the Committee at the November meeting [**Agreed Action 5**].

c. ASX Clear Operating Rules Update

ASX's General Manager of Clearing Services informed the Committee that the tiered minimum core capital requirements for third party general clearing participants had been introduced. It was noted that the new requirements had provided for the release of \$55 million in capital savings for 5 customers, and that ASX expected applications from two new general clearing participants.

AGENDA ITEM 6: ADMINISTRATION

a. Forward Work Program

ASX's General Manager of Clearing noted that the Committee had discussed and progressed all of the topics on the forward work program endorsed by the Forum on 2 October 2013, other than participation location requirements and guidance on offshoring and outsourcing which would be carried forward.

ASX's General Manager of Clearing discussed the proposed forward work program for the Committee set out in the agenda papers, and noted that the topics would continue to be grouped into similar themes, including:

- Capital efficiency and industry economics, including the review of ASX's clearing and settlement management accounts, a refresh of the international cost benchmarking, and the implications of ESMA recognition for ASX Clear.
- Flexible and efficient participant structures, including examining admission of foreign ADIs as clearing participants and a review of clearing participants supervision requirements and compliance efficiency.
- Service innovations, including T+2 working group implementation.

- Technology and infrastructure enhancement, including ongoing feedback from Members regarding the roadmap for ASX's cash market post-trade services and the CHES replacement project.

Members were invited to comment on the forward work program. A Member requested that corporate actions STP phase II be included in the forward work program.

The Chair agreed that ASX would give further consideration to where phase II of corporate actions STP would fit in the cash market post-trade services infrastructure roadmap, and that this topic should be included in the forward work program for further discussion. **[Agreed Action 6]**

b. Code of Practice Review and Proposed Business Committee Meeting Dates

The Chair noted that although the outcome of the CFR review of the Code of Practice was not clear at this time, ASX would continue working with its customers and had set out a work program for the period November 2014 to November 2015. Given the level of engagement in the Business Committee, ASX was proposing to increase the number of meetings of the Committee from three to four meetings per year. It was also noted that ASX would consult the Forum on moving to bi-annual Forum meetings (from 3 meetings a year) on the basis that most of the detailed discussions to progress initiatives were undertaken in the Business Committee.

The Chair also put forward a proposal to incorporate an additional half an hour at the end of each Committee meeting agenda to discuss post-trade services for ETOs, commencing at the next meeting. Notwithstanding that post-trade services for ETOs was outside the scope of the Code of Practice and, subsequently, the mandate of the Business Committee, the Chair indicated that the increasing number of topics that cross-over cash equities and ETOs as a result of a shared clearing house provided the basis for the proposal.

The Committee agreed to move to quarterly meetings and to discuss topics relevant to post-trade services for ETOs in future meetings.

c. Minutes from the 7 May 2014 meeting

The Chair noted the minutes from the 7 May 2014 meeting and invited comments. As there were no comments, the Chair noted that the minutes were approved.

d. Next meeting

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

As there was no further business discussed, the meeting closed at 1.55pm.

Signed as a correct record of the meeting.



Chairman

23/9/2014

Date



BUSINESS COMMITTEE REPORT TO THE FORUM

From the 27 August 2014 Business Committee meeting

At its 27 August 2014 meeting, the Business Committee was updated on progress in seeking regulatory clarity in relation to principal to principal clearing arrangements and in examining the options for extending the batch settlement cut-off time to support the implementation of a T+2 settlement cycle for the cash market. The Business Committee was invited to provide feedback on a roadmap for the development of cash market post-trade services infrastructure and a forward work program for the Committee for the period November 2014 and November 2015. The Business Committee was provided regulatory updates on ASX Clear's application for ESMA recognition and upcoming consultations on ASX Clear's recovery plans and a draft Guidance Note on outsourcing and offshoring arrangements for participants. The Business Committee was also presented with the management accounts for cash market clearing and settlement for FY14

Key Recommendations

The Business Committee recommended that:

- a recommendation on the batch settlement cut-off time should be brought to the Committee at its next meeting on 27 November 2014;
- the Technical Committee should be consulted on the proposed implementation timing and approach for the replacement of CHES to help inform ASX's roadmap for cash market post-trade services infrastructure; and
- a joint ASX and industry working group be established to progress consideration of principal to principal clearing arrangements and to engage with ASIC on these matters.

Key Issues Discussed

- The project timing for the replacement of CHES and the proposed approach to migrating from CHES to the new system. Having clear guidance on the timeframe for participant testing of the new system and a clear understanding of the proposed system changes by mid-2015 was identified as important to allow participants to assess their readiness and ability to accommodate the proposed timeframes.
- The implications of extending the batch settlement cut-off time for participants, payments providers and ASX Clear's default management processes, and the need to engage with payment providers and the RBA over the next few months to inform a decision on the batch settlement cut-off time prior to commencing the detailed planning to implement a T+2 settlement cycle.
- A decision on whether to proceed with ASX Clear's application for ESMA recognition will depend upon any conditions that would be imposed and the financial impact of those conditions for the whole market relative to the capital benefits that may be achieved for clearing participants subject to EU regulations.

Agreed Actions

1. ASX to convene a Technical Committee meeting prior to the 1 October 2014 Forum meeting to seek feedback on the cash market post-trade services infrastructure roadmap, including the implementation timing and approach for the replacement of CHES.
2. ASX to update the Committee on the discussions with APCA and the RBA on extending the batch settlement cut-off time, and put forward a recommendation on the batch settlement cut-off timing at the next meeting.
3. Establish a joint ASX and industry working group with interested participants to undertake an analysis of the proposed operation of principal to principal clearing arrangements and a legal analysis of the impact of such arrangements on client protections and the clearing participant nexus with trading participant clients.
4. ASX to provide a draft of the Guidance Note on Outsourcing and Offshoring to the Committee prior to its release for public consultation.
5. ASX to update the Committee on the progress of ASX Clear's application for ESMA recognition at the next meeting.
6. ASX to include corporate actions STP phase II in the forward work program for the period November 2014 to November 2015.