



AGENDA

Business Committee Meeting

Timing: Wednesday, 7 May 2014 commencing at 12.00pm

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

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|----|--|-------------------|
| 1. | Introduction with lunch served on arrival | 12.00pm – 12.10pm |
| 2. | Global Trends in Outsourcing | 12.10pm – 12.40pm |
| | Boston Consulting Group will present on global outsourcing trends | |
| 3. | Service Performance | 12.40pm – 12.50pm |
| | a. Cash market clearing and settlement operational performance report | |
| | b. Update on quarterly report on activity level and fees for individual participants | |
| 4. | Business Matters | |
| | <i>Existing initiatives</i> | |
| | a. International cost benchmarking | 12.50pm – 1.00pm |
| | The Business Committee will be updated on progress and the action items from the previous meeting | |
| | b. Consultation on transitioning to a T+2 settlement cycle | 1.00pm – 1.20pm |
| | The Business Committee will be provided with a summary of the key feedback received through the consultation process | |
| | c. Update on the development of ASX's technology strategy | 1.20pm – 1.30pm |
| | The Business Committee will be provided with a verbal update on the development of ASX's technology strategy and its future plans to refresh its cash market post-trade infrastructure | |
| | <i>New initiatives for consideration under the forward work program</i> | |
| | d. Clearing participant structures | 1.30pm – 1.50pm |
| | Business Committee members will be provided with a verbal update on early considerations for clearing and settling on a principal to principal basis | |
| | e. Capital and risk review | 1.50pm – 2.05pm |
| | Business Committee members are invited to discuss a review of capital and margin requirements applicable to the cash market | |

- f. Corporate actions straight-through-processing (STP) 2.05pm – 2.20pm
- The Business Committee will be updated on progress of corporate actions STP initiatives

5. Administration 2:20pm – 2:30pm

- a. Forward work program
- b. Minutes from the 19 February 2014 meeting
- c. Briefing on the international cost benchmarking report on Wednesday, 18 June 2014 at 3.30pm
- d. The next Business Committee meeting will be held on Wednesday, 27 August 2014 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	Managing Director Retail
BNP Paribas	Mr Justin Christopher	Chief Operating Officer
Chi-X Australia	Mr Jason Keady	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
Deutsche Bank AG	Mr Russel Deal	Chief Operating Officer
Goldman Sachs	Mr Greg Hanlon	Head of Operations
HSBC	Mr Andrew Bastow	Head of Securities Services
J.P. Morgan	Mr Samuel Mann	Business Manager, Australia Equities
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Morgan Stanley	Mr Craig McGuire	Head of Operations
NSX	Mr Scott Evans	General Manager & Company Secretary
Patersons Securities	Mr Sam Budiselik	Chief Operating Officer
Pershing Securities	Mr Rob Forbes	Chief Operating Officer
Morgans	Ms Sue Gye	Manager Operations

ASX Management	
Name	Job Title
Ms Amanda Harkness	Group General Counsel & Company Secretary
Mr Tim Hogben	Group Executive, Operations
Mr Alan Bardwall	Chief Risk Officer
Ms Danielle Henderson	General Manager, Clearing Services
Mr Andrew White	General Manager, Settlement Services
Mr Marcin Firek	General Manager, Company Secretariat
Ms Diane Lewis	Senior Manager, Regulatory and Public Policy
Mr Rodd Kingham	Senior Manager, Clearing Services
Mr Gary Hobourn	Senior Economic Analyst

APOLOGIES

MEMBERS		
Company	Name	Job Title
NSX	Mr Emlyn Scott	Chief Executive Officer
Morgans	Mr Peter Chisholm	Chief Operating Officer
UBS	Mr Conor Foley	Chief Operating Officer

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 2

Topic	Global Trends in Outsourcing
Date of the Meeting	7 May 2014
Purpose of this paper	Boston Consulting Group (BCG) will present to the Business Committee on global outsourcing trends.
Action required	Business Committee members are invited to share their views on matters presented.

BACKGROUND

As part of the forward work program, the ASX committed to provide an update on industry trends in outsourcing arrangements and seek feedback on current issues and challenges.

Representatives from BCG have been invited to present on global outsourcing trends given BCG's experience in this area. The main topics to be covered in the presentation include:

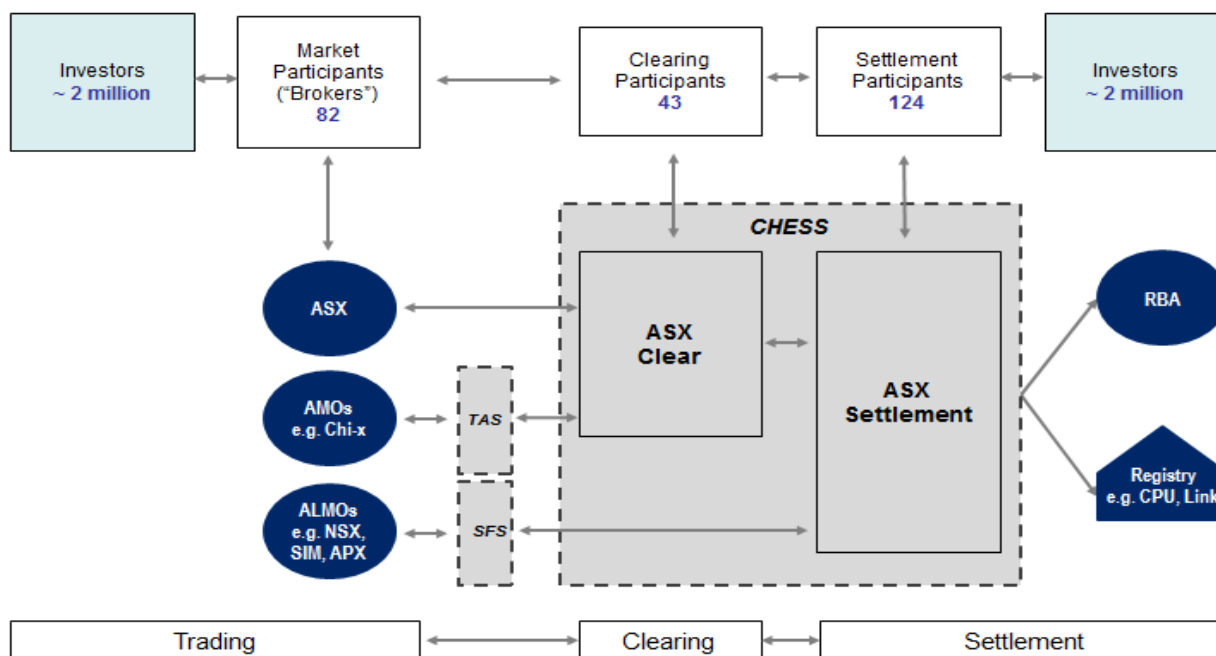
- A range of externalisation models – from pure outsourcing to industry utility
- Asset class efficiency benefits via returns to scale
- Industry views on externalisation
- Heat-map of potential opportunities
- Common obstacles and objections to externalisation
- Different outcomes for benefits
- BCG's views on future global and domestic trends
- Factors driving change

The presentation will run for 20 minutes, with 10 minutes for questions.

FORUM MEETING PAPER AGENDA ITEM 3A

Topic	Report on the operational performance of cash market clearing and settlement services
Date of the Meeting	7 May 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) 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.

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 business service availability target for CHES is 99.80%.

For the March 2014 quarter, the average monthly system availability is 100% for CHES. The average monthly availability of CHES has been 99.99% between November 2011 and March 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 business service availability target for TAS is 99.80%.

For the current March 2014 quarter the average monthly system availability is 100% for the TAS. The average monthly availability of the TAS has been 99.98% between November 2011 and March 2014.

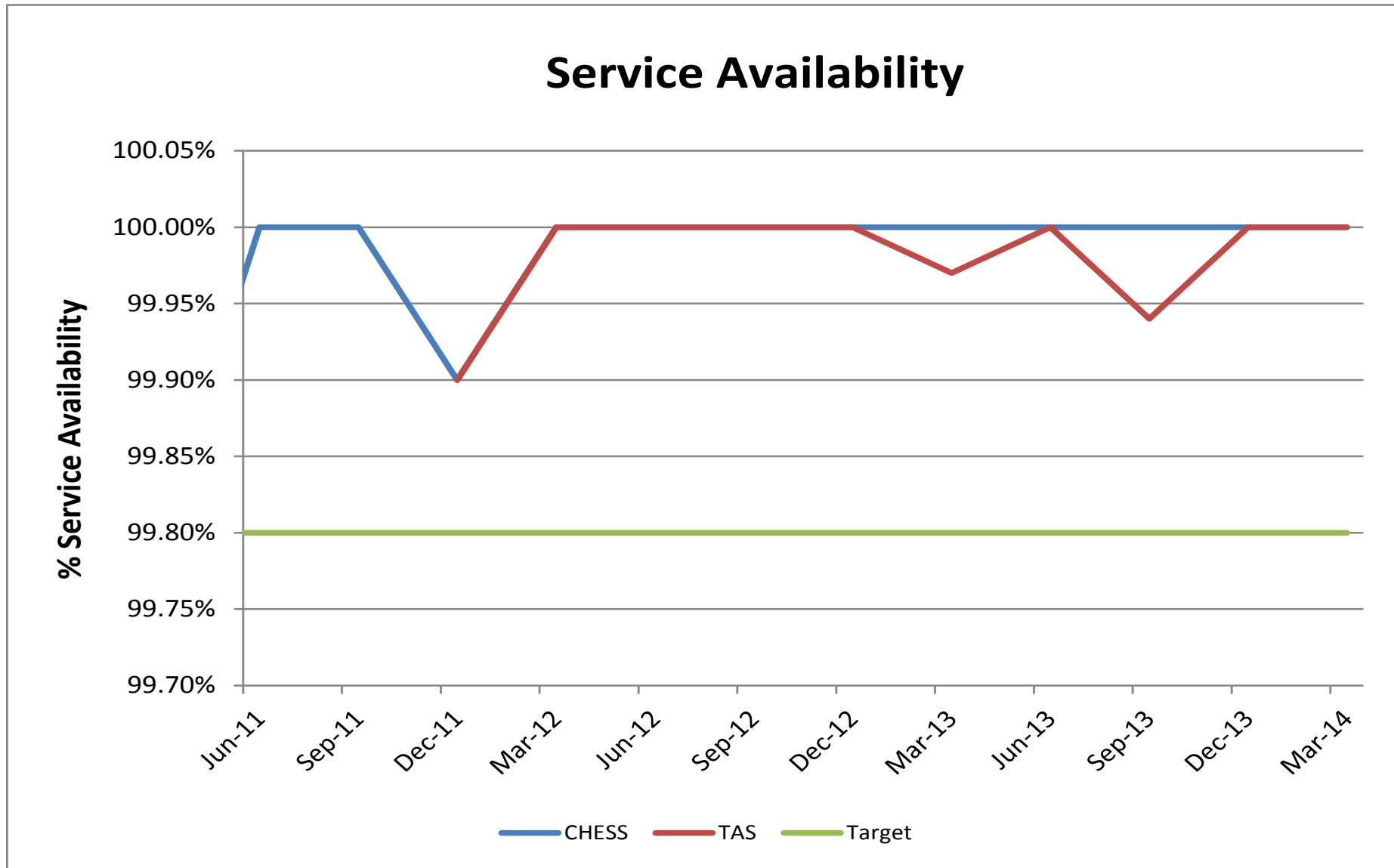
REPORTING ON CLEARING AND SETTLEMENT SERVICE PERFORMANCE

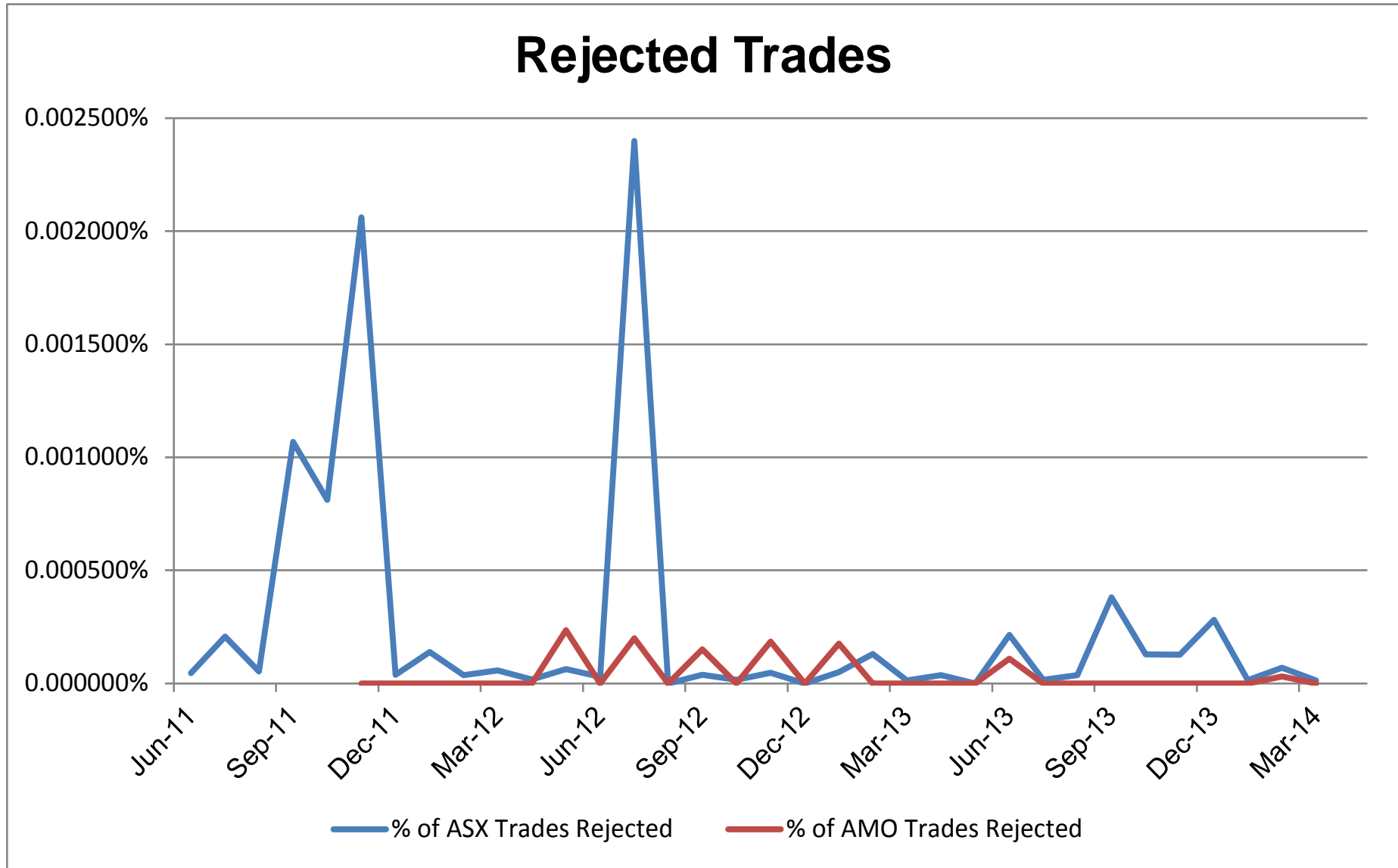
The key metrics noted above on novation, netting efficiency and settlement efficiency for the current March 2014 and December 2013 quarter are reported in Attachment A. They are also supported by charts demonstrating a longer reporting period in Attachment B.

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

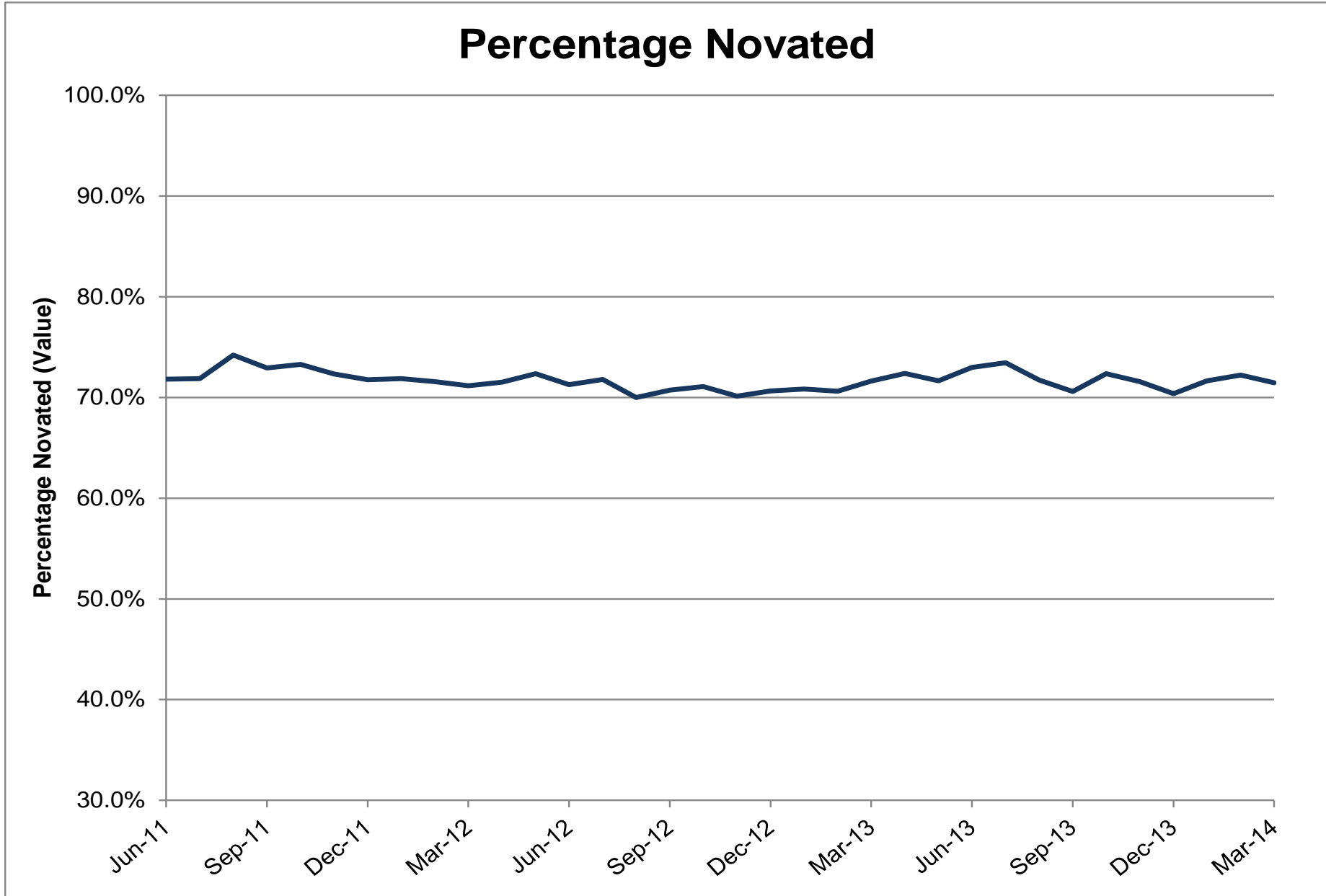
	March 2014 Quarter	December 2013 Quarter
System Availability (CHES)	100%	100%
System Availability (TAS)	100%	100%
Total Trades Accepted (ASX)	46,770,262	43,971,842
Total Trades Accepted (AMOs)	9,979,893	10,113,292
Total Trades Rejected (ASX)	15	78
Total Trades Rejected (AMOs)	1	0
Daily Average Traded Value (On and Off Market)	\$5.0 billion	\$4.9 billion
Daily Average Cleared Value	\$3.6 billion	\$3.5 billion
Percentage Novated	71.8%	71.4%
Daily Average Cleared Value Post-Netting	\$1.4 billion	\$1.4 billion
Netting Efficiency	60.7%	60.0%
Daily Average Settled Value (Including Non-Novated)	\$7.7 billion	\$8.4 billion
Settlement Efficiency	99.9%	99.9%

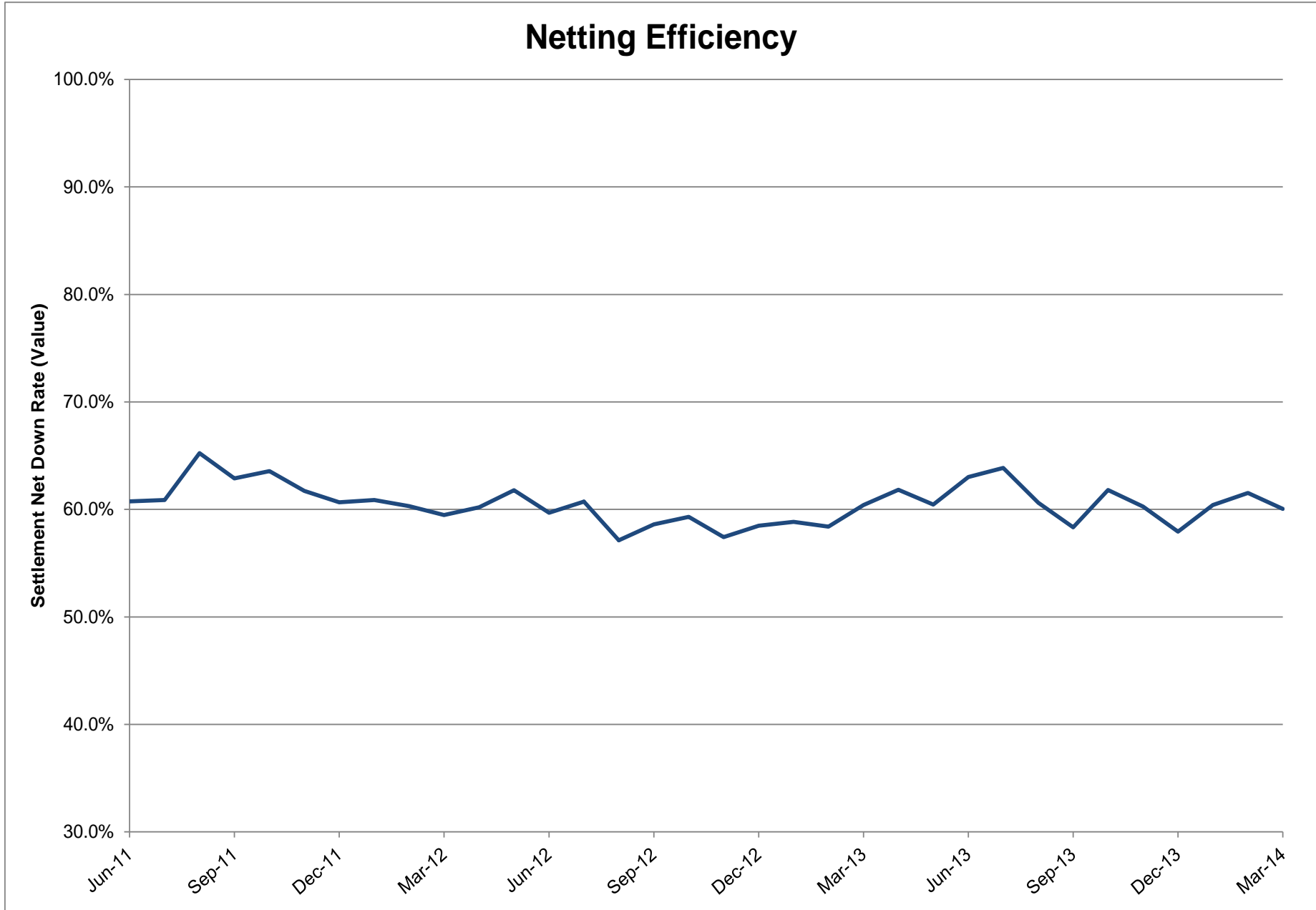
ATTACHMENT B – PERFORMANCE OF ASX'S CLEARING AND SETTLEMENT SERVICES FROM JUNE 2011 TO MARCH 2014

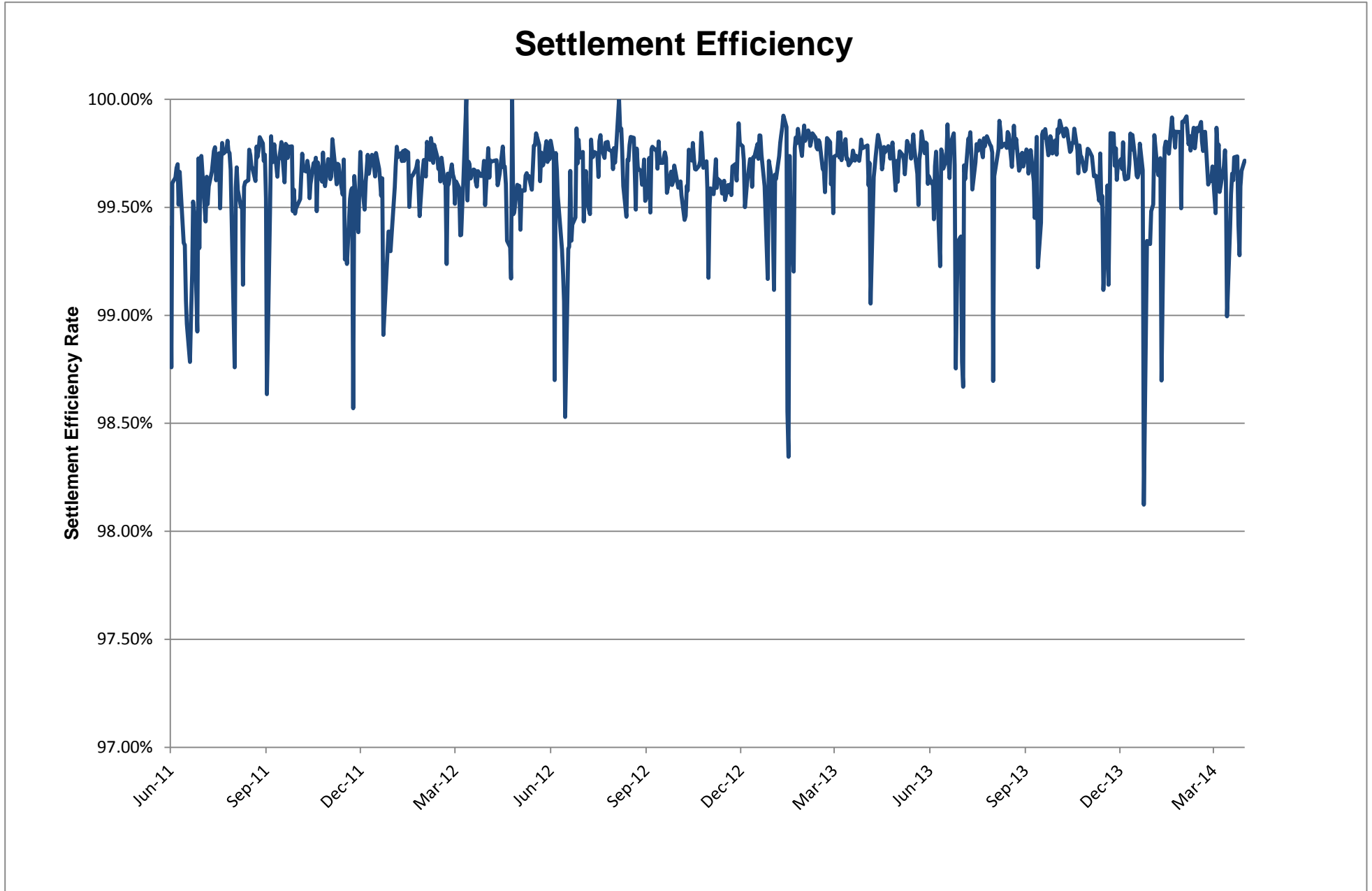




NB this chart excludes rejections caused by two one-off incidents: on 6 December 2011, 778 AMO trades were rejected due to a technical issue; and on 3 May 2013, 2202 ASX trades were rejected due to a participant issue.







BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 3B

Topic	Clearing & Settlement – Activity and Fee Reporting update
Date of the Meeting	7 May 2014
Purpose of this paper	To provide Business Committee members with an update on progress on the development of new quarterly cash market clearing and settlement activity and fee reports
Action required	To note the agenda paper.

BACKGROUND

As part of ASX's commitment to transparent pricing in the Code of Practice for Clearing and Settlement of Cash Equities in Australia (Code of Practice) and in response to feedback from the Business Committee at its last meeting, ASX has committed to develop new quarterly activity level and fee reports for individual clearing and settlement participants setting out the following information:

- Individual metrics per PID
- Comparison between the participant and anonymous peer group (Market ranking)
- Greater granularity in the trade, clearing and settlement by volumes/value and fees
- Failure and related fee reporting
- Clearing benefit by Value and Volume

PROGRESS UPDATE

The development of the new reports is on track, with completion targeted by mid May 2014. Assuming all technical testing goes to plan, it is expected that the new reports will be available to all participants by late May. The first quarterly report will cover the January – March 2014 quarter.

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4A

Topic	International Cost Benchmarking
Date of the Meeting	7 May 2014
Purpose of this paper	To update the Business Committee of progress on the international cost benchmarking for cash market clearing and settlement services and report back on the action items from the previous meeting
Action required	To note the agenda paper.

UPDATE ON WORK

Since the last Business Committee meeting, Oxera has been proceeding with its analysis. It has conducted a number of discussions with clearing and settlement facilities in each of the markets being benchmarked to test their understanding of local market practice and FMI pricing arrangements in each jurisdiction being studied.

Oxera has also held direct discussions with some Business Committee members on their perspectives on the cost benchmarking project and the user profile analysis.

ACTION ITEMS FROM PREVIOUS MEETING

ASX has discussed with Oxera the issues raised by Business Committee members at the February meeting. A brief summary of the outcomes of those discussions are below.

1. Inclusion of a global asset manager end-user in the user profile analysis.
 - The user profiles do not directly separately identify a 'global asset manager' profile. However, the breadth of institutional profiles included and the sensitivity analysis that Oxera is conducting should ensure the results would be meaningful for a global manager.
 - They do not include the costs of cross-border clearing and settlement services, which are generally determined by other factors that the domestic CSD cannot control.
2. Clarification in relation to whether the analysis captures the differences between novated and non-novated transactions submitted for settlement.
 - Oxera are considering how it may be possible to incorporate information on non-novated transactions into their report. The primary focus of the analysis is on the costs of on-market trading.
 - This size and nature of off-market (and non-novated transactions) varies across markets. Oxera is gathering information to determine to what extent post-trade services are processed and charged differently across different markets and if reasonable cross-border comparisons are possible.
3. Clarification in relation to whether the intermediary profiles and the analysis more generally captures the different circumstances where the trading participant, clearing participant and the settlement participant are not part of the same entity, for example, where a trading participant may use a third party clearer.
 - The cost benchmarking analysis will capture the different circumstances where, for example, the trading participant, clearing participant and the settlement participant are not part of the same entity and where a trading participant may use a third party clearer. The user profiles have been constructed using participant data which includes the size and nature of third-party providers of clearing and settlement services.

NEXT STEPS

ASX is arranging for the Business Committee to receive an advance presentation from Oxera on the final results of the international benchmarking review in the week prior to a presentation to the Forum on 23 June. The presentation to the Business Committee is currently scheduled for 18 June 2014 at 3.30pm.

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4B

Topic	Transitioning to a T+2 Settlement Cycle
Date of the Meeting	7 May 2014
Purpose of this paper	To provide the Business Committee with a summary of the key feedback received in response to the consultation paper on transitioning to a T+2 settlement cycle for cash equities.
Action required	The Business Committee is invited to discuss the consultation feedback received.

DISCUSSION AT THE 2 APRIL 2014 FORUM MEETING

Forum members had a broad ranging discussion on the key issues subject to consultation for the introduction of a T+2 settlement cycle, including:

- the timing that should be targeted for its introduction;
- the difficulty in managing the changes required to payment methods in an accelerated implementation timeframe;
- the revised timing for batch settlement cut-off required to facilitate in the introduction of a shortened settlement cycle; and
- that shortening the settlement cycle by a business day could be accommodated without adversely impacting offshore investors.

Forum members also discussed the potential to reduce the default capital requirements for the clearing house and consequently the cash market clearing fee.

CONSULTATION FEEDBACK

ASX received 23 written submissions in response to the consultation paper. Eleven of the respondents requested that their submission be treated as confidential. All non-confidential submissions will be made available on the ASX website.

ASX has also undertaken a range of consultation meetings and roundtable discussions with a number of retail and institutional participants, and other industry stakeholders, including system vendors, share registries, the Stockbrokers Association of Australia, the Australian Financial Markets Association, the Australian Custodial Services Association, the Australian Payments Clearing Association and NZX Limited.

The consultation feedback indicates widespread industry support for the introduction of a T+2 settlement cycle for cash equities based on the expected risk reduction for most industry stakeholders, cost reduction for a large number of industry stakeholders, the benefits of aligning the settlement cycle with global best practice and the improved processing efficiencies that will be required.

Whilst a range of views were received on implementation timing, they tended towards a Q1 2016 (CY) implementation date. ASX is likely to recommend to the Forum at its next meeting a target implementation date in early Q1 2016 and a change to the batch settlement cut-off time to support the introduction of a T+2 settlement cycle. The key feedback received through the consultation includes:

- the majority of respondents indicated that the expected costs of implementing a T+2 settlement cycle would be minimal or immaterial on the basis that significant system changes would not be required. However, a number of respondents indicated that they expected the costs of implementation to be a little more significant (moderate) on the basis of their systems requiring more significant changes, end-to-end testing and changes to policies, operational procedures and client relations, including potential changes to client agreements;

- a range of views from respondents in relation to implementation timing, with around half of respondents indicating support for moving to T+2 in Q1 2016 (CY) on the basis that it is more feasible and achievable for the whole industry and their clients to be prepared. There were a significant number of respondents calling for a more aggressive timeframe for implementation in 2015.
 - Of those calling for the introduction of T+2 in 2015, a number of respondents supported an implementation date in early 2015 to coincide with the introduction of T+2 in Europe and a few others indicating that mid-2015 (CY) was more realistic.
 - The respondents supportive of an implementation date in Q1 2016 include a number of retail participants, custodians, share registries and other stakeholders. The primary reasons given for targeting an implementation date in Q1 2016 included managing the changes required for settlement processes and payment methods for retail investors, the need for an adequate transition period to address all of implementation issues for industry and the benefits of leveraging the lessons and successes from the introduction of T+2 in Europe;
- strong support for pushing back the batch settlement cut-off time to assist in managing timely settlement and reduce the potential for an increase in settlement failure with the introduction of a T+2 settlement cycle. There were a range of views about what would be the optimum time for batch cut-off from 11.30am through to 1pm, with a majority of respondents suggesting that it should be moved to either 12.00 noon or 12.30pm.
 - A number of respondents who were supportive of moving the batch settlement cut-off time to 11.30am or 12.00noon, indicated that they did not support moving the batch cut-off beyond those times on the basis of the importance of minimising the resultant delays to other daily back office tasks and afternoon settlement processes, and minimising the changes to funding processes.
 - Respondents that were supportive of moving the batch settlement cut-off time to somewhere between 12.00 noon and 1.00pm were so on the basis that it would provide for more time for client processing and would better accommodate operations, clients and custodians in the Asian time zone.
- strong opposition was expressed by a significant majority of stakeholders in relation to the idea of introducing a second batch settlement to manage late settlements. This was due to the operational duplication and significantly increased costs associated with a second batch. A number of respondents were also of the view that an additional batch settlement may not provide the right incentives for timely settlement;
- some respondents have raised the difficulties of managing ETF creations for cross-listed ETFs in the Australian market with a T+2 settlement cycle where the underlying securities in the US market settle under a T+3 regime. It was indicated that while accelerated creations in the primary market can be facilitated, they would not be guaranteed and, as such, could lead to increased settlement risk in relation to the corresponding Australian trades;
- some respondents have raised the issue of the mismatch in settlement times if cash equities move to a T+2 settlement cycle and the underlying bond markets remain at a T+3 settlement cycle, which would create complexities and may increase the settlement risk for domestic fixed income ETFs in relation to creations and redemptions of the ETF units in the primary market. This mismatch in settlement times between cash market products and the underlying bond market also raises issues for the trading in CDIs over AGBs;
- there was broad support for the ex period for all corporate actions and applicable reorganisations of capital to be reduced by a business day with the introduction of a T+2 settlement cycle to align the ex period with settlement cycle (that is, a 2 business day ex period will be implemented);
- there was strong support for trade netting to occur at the end of day on T+0 under a T+2 settlement regime (which maintains a consistent approach to trade netting which occurs 2 business days prior to settlement date). This was on the basis that it provides clarity of cash liquidity requirements a full day before settlement;
- the majority of respondents were supportive of the proposed changes to the ASX Settlement Operating Rules to reduce the settlement disciplinary milestones by 1 business day such that financial penalties will be levied for settlement fails on T+2 and the automatic close-out requirement will apply for settlement shortfalls that remain after

batch settlement on T+4. This was on the basis that maintaining a consistent approach to the settlement disciplinary measures would appropriately incentivise timely settlement in a T+2 settlement regime. However, a number of respondents suggested that consideration should be given to applying a waiver of the fail fees for failed settlements on T+2 during an initial implementation phase;

- a large number of respondents commented on the importance of ASX continuing its discussions with NZX in relation to the benefits of NZX moving to a T+2 settlement cycle together with the Australian market given the number of dual-listed securities and the complexities a mismatch in settlement times may create for corporate actions. However, it was noted by a number of respondents that the Australian market's move to a T+2 settlement cycle should not be dependent on NZX shortening its settlement cycle; and
- one respondent expressed concern that the consultation paper did not examine the case for shortening the settlement cycle to T+1. In response to the consultation question querying the feasibility of adopting a T+1 settlement cycle for special markets, a large number of respondents indicated that the introduction of a T+1 settlement regime more broadly in the Australian market was a step too far at this point in time.

NEXT STEPS AND CONSIDERATIONS

At its next meeting on 23 June 2014, the Forum will be invited to consider the timing for the introduction of a T+2 settlement cycle for cash equities in Australia and a change in the batch settlement cut-off time.

A summary of the consultation feedback and input received from the Business Committee will be provided to Forum members in the meeting papers for that meeting.

Based on the feedback received in relation to the benefits of pushing back the batch settlement cut-off time, ASX proposes to change the batch settlement cut-off time to 12.00 noon, subject to consultation with the Australian Payments Clearing Association, payments providers, and regulators, and the completion of an internal analysis of default management processes.

QUESTIONS FOR THE BUSINESS COMMITTEE

- Do Business Committee members support ASX undertaking targeted consultation with the Australian Payments Clearing Association and payments providers on a proposal to change the batch settlement cut-off time to 12.00 noon?
- What are Business Committee members' views on the merit of targeting an implementation date for the introduction of a T+2 settlement cycle in early Q1 2016 given the need for the whole industry and investors to be prepared for its introduction and the desirability of changing the timing of batch settlement cut-off at the same time?

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4E

Topic	CCP Capital and Risk Review
Date of the Meeting	7 May 2014
Purpose of this paper	To provide a high level overview of the CCP's risk management framework for Business Committee members.
Action Required	To note the agenda paper.

OVERVIEW

ASX Clear is the central counterparty (CCP) to cash market transactions executed on ASX and Chi-x Australia. It is also the CCP for ASX's equity options market. In this role, ASX Clear has an extensive clearing risk management framework designed to minimise the probability of a clearing participant default and ensure that the central counterparty has robust capabilities to manage the impact of a Clearing Participant default in a range of market circumstances, including extreme but plausible market price movements.

The ASX Clear risk management framework balances several key factors:

- global best practice for CCP risk management practices;
- regulatory requirements, in particular, those set out in the RBA's Financial Stability Standards for Central Counterparties;
- ASX Clear's risk appetite; and
- the impact of the risk management standards and techniques employed by ASX Clear on the wider market.

Attachment 1 provides a high level overview of ASX Clear's risk management framework.

All of the CCP's activities are supported by its essential structural foundations, including regulatory licences, integration with payment, collateral and settlement systems and important legal protections such as those related to ASX Clear's recognition under the Payments System Netting Act (PSNA). The risk management approach may be divided into three broad tiers.

TIER 1

Tier 1 comprises of functions designed to minimise the probability of a clearing participant defaulting.

These functions may be divided into activities that ensure the operational robustness and the financial soundness of clearing participants. Non-bank participants are subject to the risk based capital requirements set out in ASX Clear Rule S1, where liquid capital must be greater than the total risk requirement. The total risk requirement is a variable measure of the risks to which a participant is exposed in the running of its entire business. Compliance with these requirements is monitored via the submission of monthly, annual and ad hoc returns. Self-reporting obligations also apply to participants (e.g. need to notify if ratio of liquid capital to total risk requirement is 1.2 or less).

In addition, ASX Clear applies NTA-style capital minimums for all clearing participants. Core capital must be at least \$5m for direct participants or \$20m for general participants. Rule amendments are in progress to implement tiered core capital requirements for General Participants. Minimum core capital requirements will be \$5m, \$10m, \$15m or \$20m depending on the number of participants for which the general participant clears.

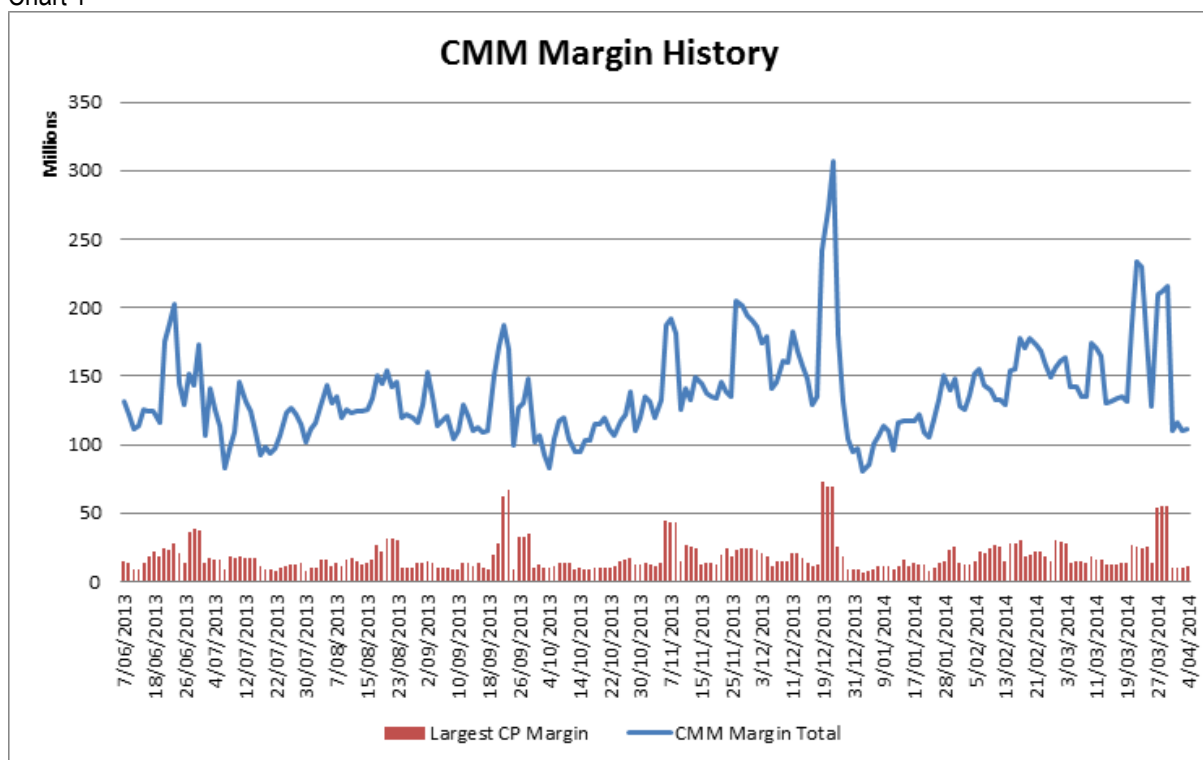
TIER 2 AND 3

Tier 2 and 3 risk protections are designed to ensure that ASX Clear can withstand the losses it may incur in managing a clearing participant default (loss given default). Tier 2 protections are those used to protect the CCP against losses that may be incurred by ASX Clear from a clearing participant default in 'normal market' conditions. Whereas Tier 3 protections aim to mitigate against default losses in extreme market conditions. In these circumstances, pooled resources are used as a capital efficient means of offsetting any resulting losses in excess of the defaulter's margin during these very low probability events.

Tier 2

In June 2013, ASX enhanced its Tier 2 risk management protections through the introduction of cash market margining (CMM). On average, the total margin requirement for the whole market averaged \$137 million per day, although it has ranged from \$80 million to \$308 million. The largest daily margin requirement for a single clearing participant on any given day is around \$18 million and this has peaked at \$72 million. See Chart 1 below for the CMM margin history from June 2013 to April 2014. The spikes in margin correspond to the purchase and sale of cash equities arising from the exercise of equity options at expiry. December 2013 was particularly large because all equity index and individual equity options expired on the same day (19 December).

Chart 1



CMM for each clearing participant comprises of a mark-to-market which estimates, where possible, the unrealised losses on the novated transactions since trade and initial margin which estimates the potential future losses that could be incurred before the unsettled transactions are closed out at prevailing market prices. The initial margin calculation is predominantly based on a value-at-risk historic simulation model that more accurately measures the complex interactions of many share prices. In instances where the price quality is unreliable or insufficient, a flat rate per stock methodology is used. In addition to CMM, ASX Clear may call additional margins from a specific counterparty usually in relation to any counterparty concerns and/or concentrated or large positions.

Tier 3

Tier 3 risk protections comprise of ASX Clear's default resources. This totals \$250 million of paid in resources, provided by ASX, and supported by a further \$300 million in emergency assessment powers that enable ASX Clear to apportion

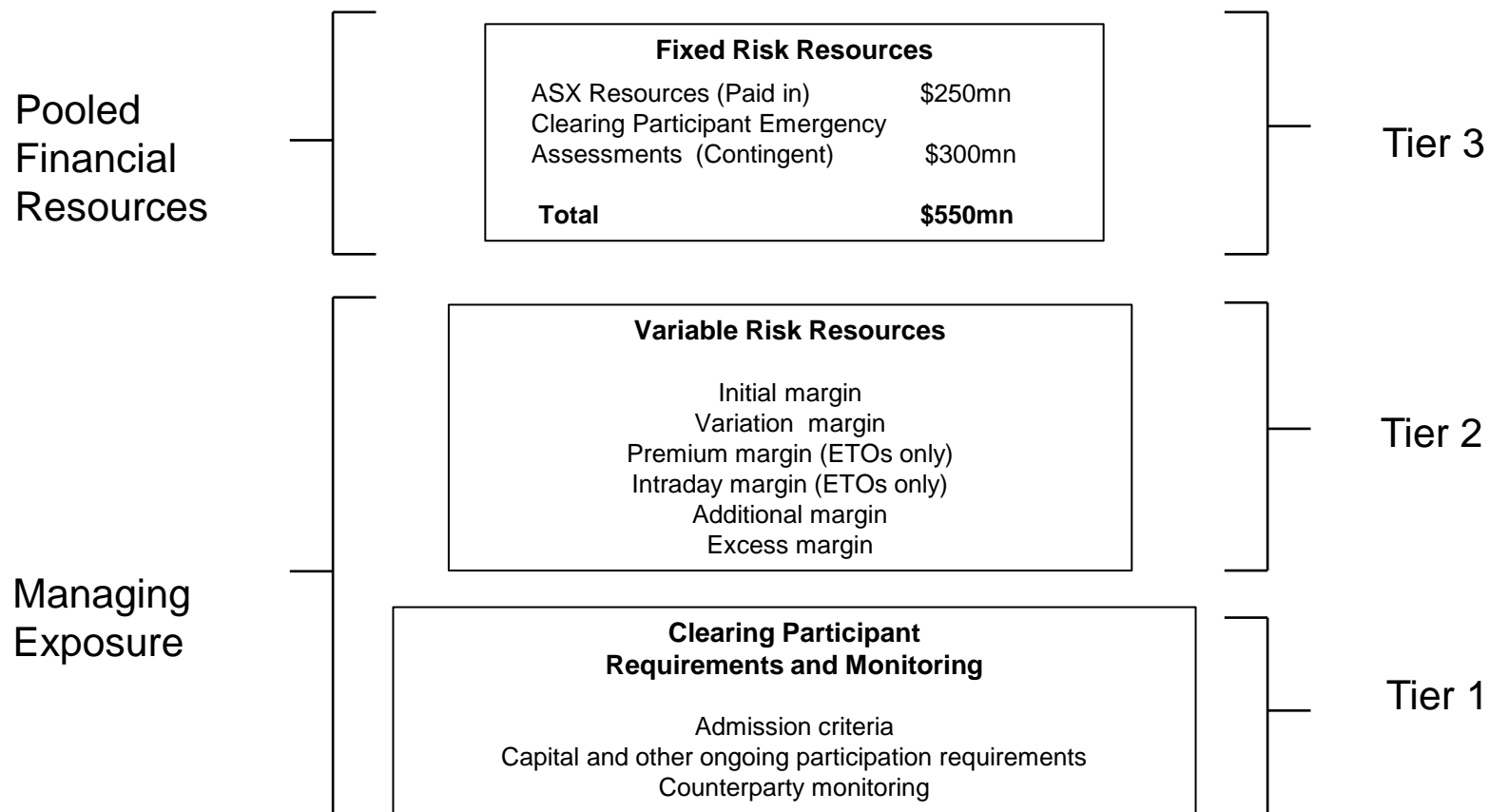
any losses in excess of the defaulter's assets at the and the \$250 million ASX tranche among surviving clearing participants. Where a clearing participant's stress testing results exceed their stress testing limit, these tranches are also supplemented by additional margin. The order of these resources (the 'waterfall') is shown in Attachment 2. The size of the fund is regularly reviewed and calibrated to the potential loss of the largest clearing participant that coincides with a 1 in 30 year adverse price movement.

In addition to the CCP capital resources, ASX also uses stress testing to ensure that it has sufficient liquid resources to manage timely margin payments in a default. These liquid resources are supported by ASX Clear's ability to re-schedule equity market transactions in extreme circumstances. Following consultation in 2013, the re-scheduling arrangements are being replaced later this year with an enhanced methodology.

Overall, the approach and structure of the risk management protections follow CCP-industry best practices. However, there are two key differences compared to structures typically found overseas.

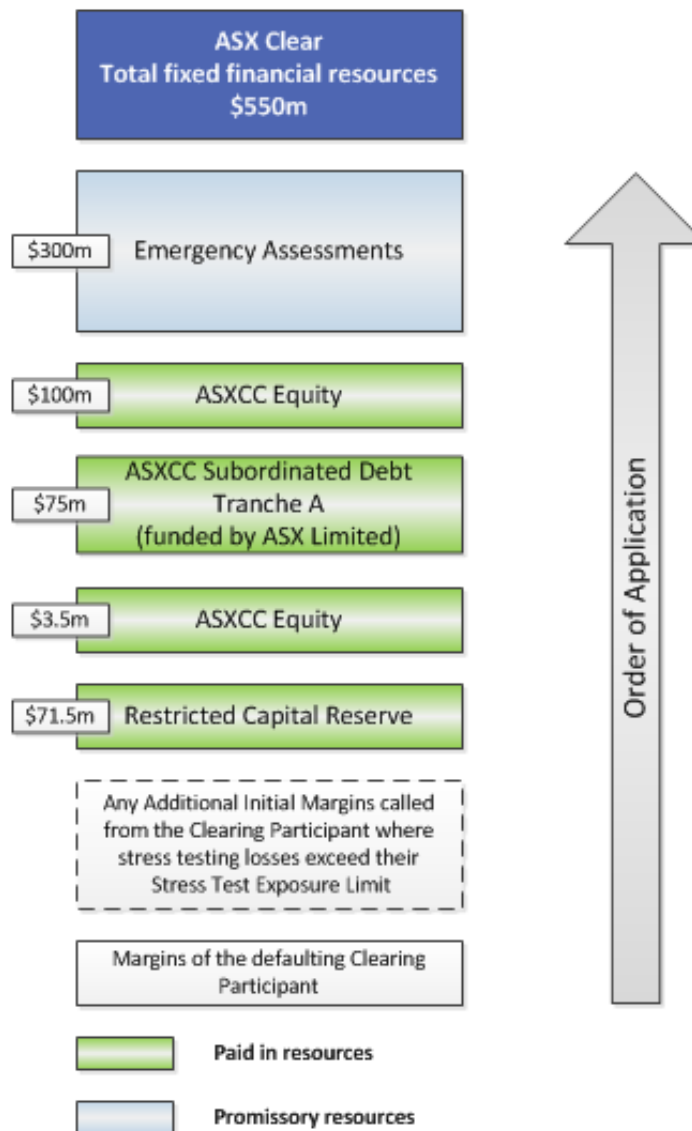
- ASX provides all paid-in resources to the CCP default resources waterfall, with no paid-in clearing participant default fund. The majority of overseas cash market CCPs have proportionally far less of their own capital in the default fund, with clearing participants required to make paid-in contributions. The current ASX approach provides greater protection to clearing participants against losses from another clearing participant's default without clearing participants having to incur any direct funding costs. Conversely, this structure is capital intensive for ASX which is reflected in a higher fee structure and, it doesn't promote the ethos of clearing participants having "skin in the game" to incentivise appropriate behaviours; and
- ASX Clear requires clearing participants to meet both variable risk-based liquid capital requirements and a flat rate NTA-style minimum capital requirement. Most overseas cash market CCPs rely upon NTA-style minimum capital requirements (and do not also have in place variable risk-based liquid capital requirements) on the basis that margining will protect the CCP in the event of default.

ASX Clear Approach to Clearing Risk Management



- | Supporting Foundations | |
|---|--|
| <ul style="list-style-type: none"> Regulatory compliance / licensing (ASIC/RBA) Rulebook and Procedures Legal framework (PSN Act; Corporations Law) Account segregation and netting | <ul style="list-style-type: none"> Clear point of novation and settlement finality Investment and liquidity management Default Management preparedness Transaction processing (payment, delivery and collateral systems) |

ASX Clear Default Resource Waterfall



BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4F

Topic	Corporate Actions Straight-Through Processing
Date of the Meeting	7 May 2014
Purpose of this paper	To inform the Business Committee members of forthcoming improvements to corporate action processing and considerations of further developments.
Action Required	The Business Committee is invited to provide feedback on the scope and prioritisation of further initiatives to improve corporate action processing.

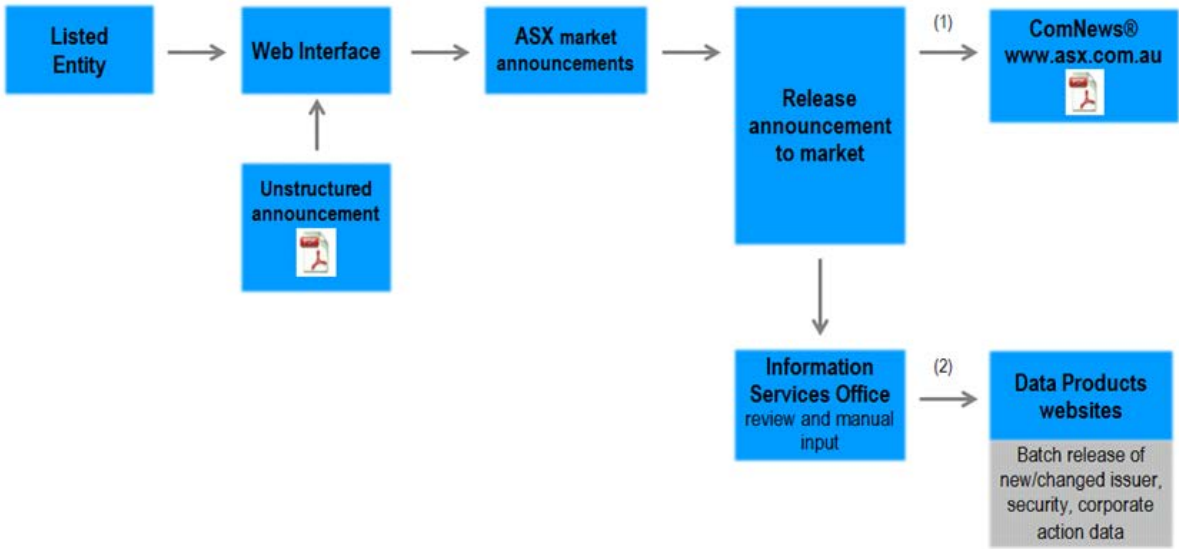
BACKGROUND

ASX is proposing to make the market announcement process for listed entities and information users faster and easier by introducing straight-through processing (STP). The initial phase of this initiative will go-live on 21 July 2014 and the straight-through-process for issuers will become mandatory for all listed entities six months after the go-live date.

Listed entities make more than 110,000 announcements to the market each year. These announcements include key information about the listed entities and their securities, corporate actions and other events.

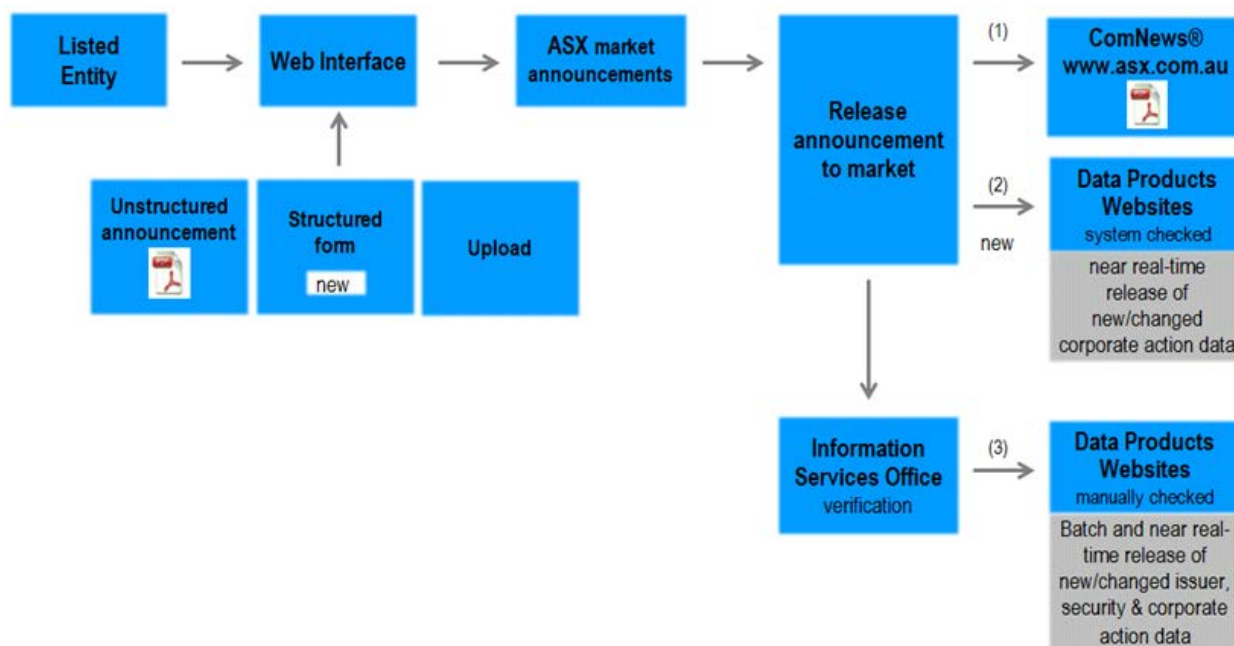
ASX is the source for a large amount of information relating to listed entities and security data, including corporate actions information. Corporate actions information is of critical importance for assessing the activities and performance of a company for the purpose of investment decision-making. As such, it is vital that this data is timely, accurate and relevant.

The corporate actions data is currently manually transcribed from unstructured company announcements and processed in ASX internal systems. It is then disseminated in ASX Market Information reference products. The following diagram sets out the current process under which corporate action information is disseminated to the market and users:



CORPORATE ACTIONS STP INITIATIVE – PHASE I

The Corporate Actions STP initiative aims to significantly improve the current process by allowing companies to input information directly to ASX's announcement interface. This initiative will improve the speed and accuracy in the provision of company announcements, together with facilitating compliance with the ASX Listing Rules. It will also assist with the development of new data sets that are compliant with international standards (ISO 20022), and provide new product formats and delivery mechanisms for corporate information. The diagram below sets out the new delivery mechanisms for corporate action information under the Corporate Actions STP initiative.



This end-to-end straight-through-processing will lead to the following benefits throughout the corporate actions process chain:

- the new process for listed entities is mandated via the ASX Listing Rules to ensure 100% STP for the prescribed corporate action events;
- listed entities will benefit from improved workflows and improved compliance with the listing rules through validation;
- intermediaries will benefit from new near real time international standard data sets (ISO 20022) allowing easier implementation and standardisation of systems; and
- investors will receive company data more quickly, enabling more informed and timely investment decision-making.

The initial phase of the Corporate Actions STP initiative will be delivered for four types of corporate action: dividends, interest payments, reorganisations and capital returns. These types of corporate actions account for around two-thirds of corporate action volumes (see below). Major custodians, superannuation managers, other intermediaries and end users have already tested the straight-through-process for the dissemination of the resultant corporate information.

NEXT STEPS AND CONSIDERATIONS

The initial phase of the Corporate Actions STP initiative has been a significant undertaking. Initial estimates suggest that an end-to-end STP solution for the ten remaining types of corporate action would be of a similar scale again and may not be feasible given the complexity of providing STP to issuers for input for some corporate action events.

The next phase of the initiative will be considered on the basis of the benefits to customers and will also need to be prioritised appropriately vis-à-vis other initiatives, such as, T+2 and CHESS replacement.

In examining the scope and feasibility of the next phase of this initiative, there are a range of alternative options to an end-to-end STP solution for all remaining corporate actions that can be considered, including:

- an end-to-end STP solution for some but not all of the remaining corporate action types. Such an approach could be based on the volume of each corporate action event type. The corporate action types to be delivered in the next phase of the initiative could also be selected on the basis that some corporate action events may not be suited to an end-to-end STP solution incorporating the input provided by issuers given either the complexity of information announced or the fact that the event is not announced by the issuer but by a third party and/or requires ASX's confirmation. The table below lists the corporate action types by volume; and
- delivery of STP of the data dissemination to customers of the corporate action information (the ISO 20022 message) without providing STP of input to issuers (i.e. to stop short of providing an end-to-end STP solution). This approach would significantly reduce the scale of work required to deliver the next phase of the initiative since the complexity of work is on the issuer input side. It would also enable ISO 20022 messages to be produced for all corporate action event types. However, this approach would reduce the all-in-benefit as the information would be standardised in ISO 20022 format, but it would not be provided quicker, richer in content or self-validated.

Corporate Action Event Type	Volume (% of total) ¹
Delivered in Phase 1	
Dividend	50%
Interest Payment	10%
Reorganisation (consolidation/split)	5%
Capital Return	1%
For consideration for end-to-end STP in Phase 2	
Non-Renounceable issue (including accelerated)	10%
Share Purchase Plan	7%
Renounceable issue (including accelerated)	2%
Bonus issue	1%
Priority Issue (non-pro rata)	1%
Events for which an STP solution for the input by issuers may not be feasible	
Name/Class change (ASX code change)	8%
Final Date Option conversion	4%
In-Specie distribution (notified as bonus issue)	1%
Call	0%
Equal Access Buy Back	0%
Final Date Convertible note conversion	0%
Other non-structured events for which an STP solution for the input by issuers may not be feasible	
On Market Buy Back, Name change (without code change), Takeover, Scheme	0%

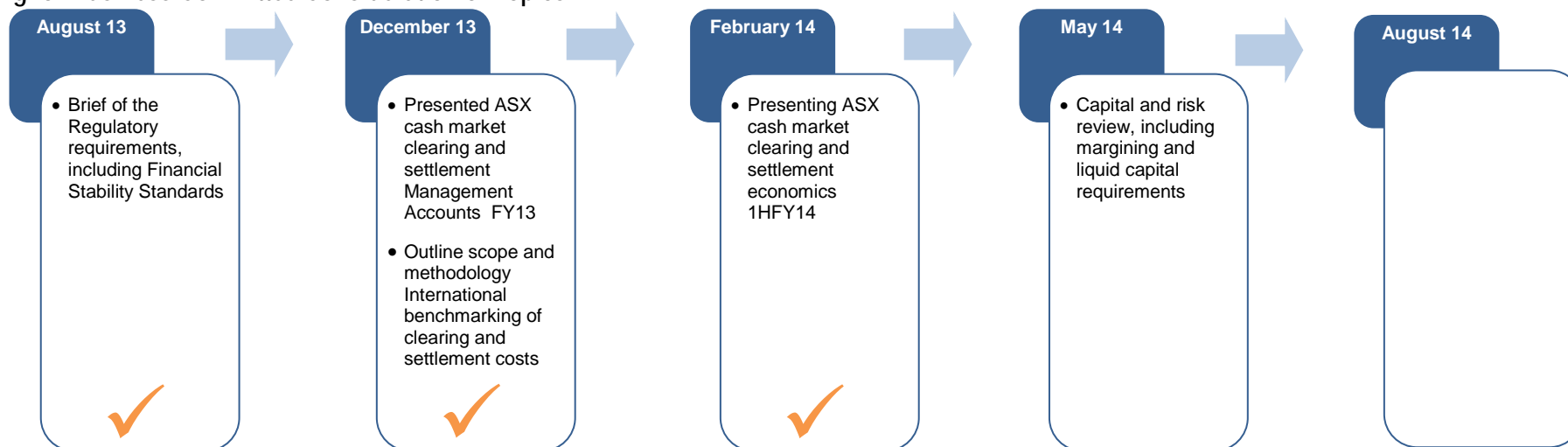
QUESTION FOR THE BUSINESS COMMITTEE

- Do Business Committee members see merit in the provision of an end-to-end straight-through-process for all remaining corporate actions given the expected time and costs associated with delivering such a solution?

¹ Calculated as the percentage of the 2,500 corporate action events processed and supported by ASX and disseminated in the ASX ReferencePoint corporate action products during 2013 (0% = less than ½ percent).

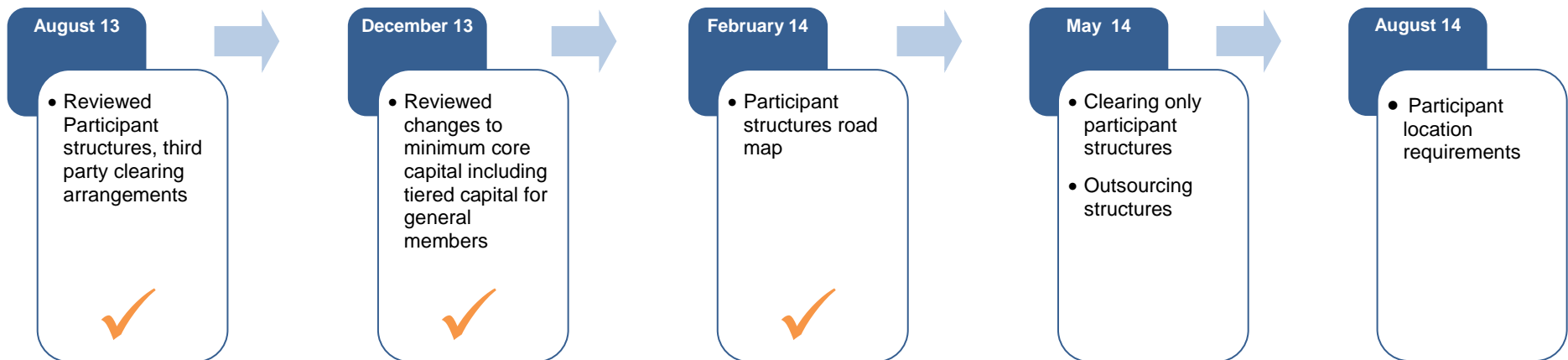
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
1. Capital Efficiency and industry economics	To minimise the capital costs for ASX's customers whilst maintaining robust CCP capital support	a. ASX cash market clearing and settlement economics	ASX published the management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

Timing for Business Committee Consideration of Topics



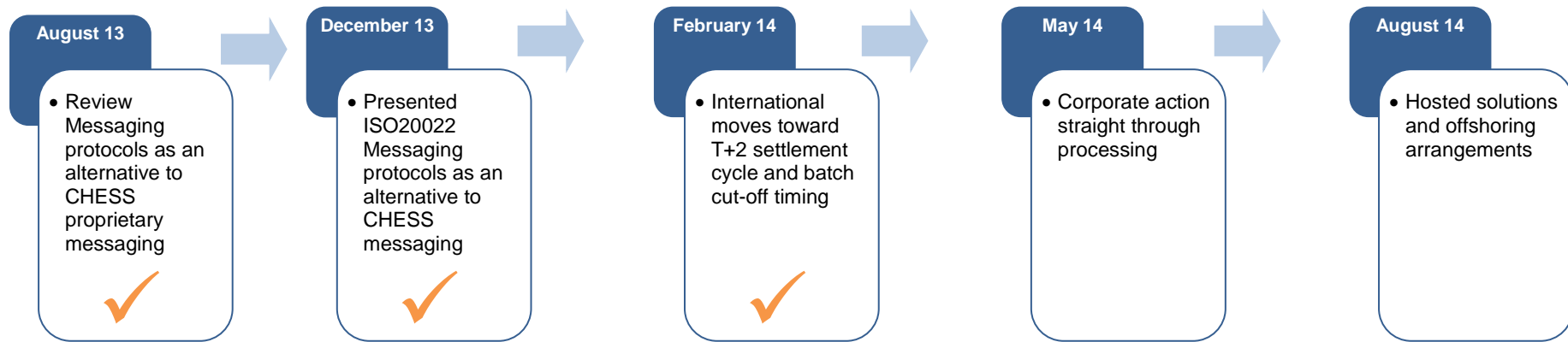
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
2. Participant Structure Flexibility & Efficiency	To align ASX's participant access regime with its customers' evolving business models	a. Participant structures, including shadow broking & road map	ASX will also provide a 'road map' of initiatives aimed at improving participant structure flexibility and efficiency. ASX will present a proposal for the introduction of tiered capital for general clearing participants. ASX will also present proposals on other clearing participant structures and seek feedback on potential benefits to customers in terms of capital costs, margin efficiencies, operating costs and transactional efficiency.
		b. Clearing only participant structures	ASX will present a proposal for the introduction of a clearing only general participant status and seek feedback from the Committee on whether this may encourage greater flexibility in terms of outsourcing arrangements. HIN sponsorship arrangements will also be examined in this review.
		c. Participant location requirements	ASX will provide an update on industry trends in terms of participant location in clearing and settlement and will seek feedback from the Committee on whether greater flexibility is required and could be supported under current legal and regulatory settings, and identify what domestic location requirements are necessary.
		d. Outsourcing structures	ASX will provide an update on industry trends in outsourcing arrangements and will seek feedback from the Committee on whether greater flexibility is required and could be supported under current risk, legal and regulatory regimes or whether formal requirements on outsourcing are necessary.
		e. Multiple third party clearing arrangements	ASX will highlight recent changes to clearing participant structures, provide an update on approvals and explain how these changes relate to third party clearing arrangements.

Timing for Business Committee Consideration of Topics



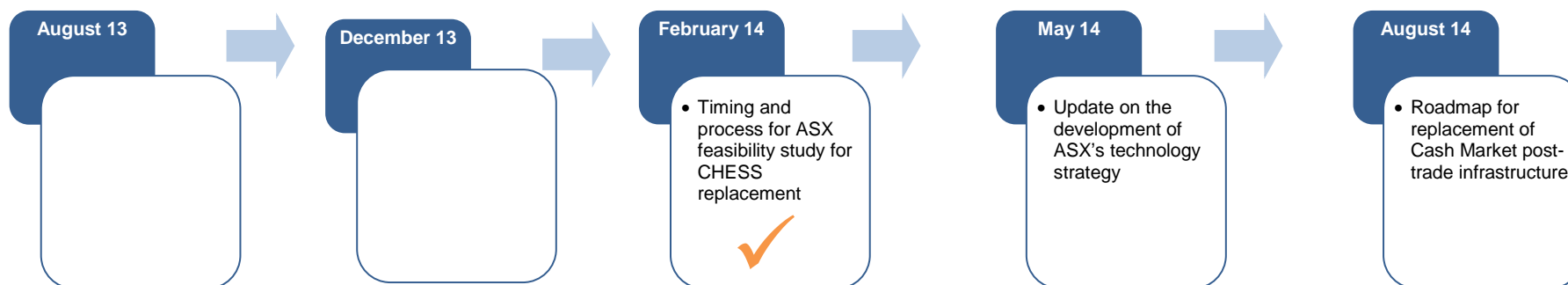
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
3. Service Innovation	To deliver global best practice cash market clearing and settlement services	a. Corporate action straight through processing	An initiative which will deliver a streamlined process for the announcement, data capture and delivery (using ISO 20022) of corporate action information. The first phase of the initiative includes dividends, interest payments, capital returns reorganisations, and is expected to be live by end 2013.
		b. SWIFT messaging as an alternative to CHES proprietary messaging	ASX will present a proposal to introduce a global messaging standard as an alternative to CHES proprietary messaging.
		c. International moves toward T+2 settlement cycle & batch cut-off times	T2S in Europe will move European equity settlement to T+2 while DTCC has consulted on moving US equity settlement to T+2 or even T+1. The Committee will explore what this might mean in the Australian context, and also consider batch settlement timing against an international comparison.
		d. Hosted solutions and offshoring arrangements	ASX will provide an update on industry trends towards clearing and settlement participant hosted solutions, including offshoring arrangements, and seek the Committee's feedback on whether greater flexibility is required and could be supported under current risk, legal and regulatory settings.
		e. ASX FY14 / 15 systems release program	ASX will provide a roadmap of the coming year's CHES release programme and seek the Committee's feedback on implementation considerations.

Timing for Business Committee Consideration of Topics



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

Timing for Business Committee Consideration of Topics



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

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

BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5B

Topic	Minutes from 19 February 2014 meeting
Date of the Meeting	7 May 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 19 February 2014 meeting.
Action required	To approve the minutes and report to the Forum from the 9 February 2014 meeting.

Draft minutes and the draft report to the Forum from the 19 February 2014 Business Committee meeting were emailed to all members of the Business Committee on 18 March 2014 for comments by 25 March 2014.

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

The Business Committee minutes were signed by the Chair on 26 March 2014.

A copy of the minutes and report to the Forum from the 19 February 2014 meeting are provided in Attachments A and B.

ATTACHMENTS

Attachment A – Minutes from 19 February 2014 Meeting
Attachment B – Business Committee Report to the Forum



MINUTES OF THE BUSINESS COMMITTEE
WEDNESDAY, 19 FEBRUARY 2014
ASX LIMITED
LEVEL 1, 20 BRIDGE STREET SYDNEY

1. Introduction and overview of meeting agenda

2. Service Performance

- a. Clearing and settlement service performance report
- b. Consultation Paper released on the Trade Acceptance Service and the Settlement Facilitation Service
- c. Sample report for individual participants on fees

3. Business Matters

- a. International benchmarking

Business Committee members are invited to provide feedback on user profiles for the benchmarking

- b. Draft consultation paper on moving to a T+2 settlement cycle

Business Committee members are invited to provide feedback on the draft consultation paper

- c. Roadmap for CHES

Feedback from the Technical Committee on ISO 20022 on the roadmap for CHES

- d. Clearing only participant structures

ASX to provide an update on progress and next steps

4. Management accounts for cash market clearing and settlement

The management accounts for cash market clearing and settlement services for the half year ended 31 December 2013 were released, together with ASX's half year results, on 13 February 2014.

5. Administration

- a. Updated forward work program
- b. Minutes from the 9 December 2013 meeting
- c. Next meeting

ATTENDEES

MEMBERS		
Company	Name	Job Title
ASX	Mr Peter Hiom	Business Committee Chair Deputy CEO, ASX
ABN Amro	Mr Barry Parker	Chief Executive Officer
APX	Mr David Lawrence	Chief Operating Officer & Company Secretary
Bank of America Merrill Lynch	Mr Anatoly Kirievsky	Vice President Compliance
BBY Ltd (by telephone)	Mr Arun Mahraj	Chief Executive Officer
BNP Paribas	Mr Justin Christoper	Chief Operating Officer
Chi-X	Mr Jason Keady	Head of Market Operations
Citi	Mr Nick Pelham	Business Manager – Markets
Citi	Mr Miles O'Connor	Director, AU / NZ Direct Custody & Clearing Securities & Funds Services
Commonwealth Bank of Australia	Mr Sheridan Thompson	Head of Strategic Development, CommSec
Goldman Sachs	Mr Greg Hanlon	Chief Operating Officer
HSBC	Mr Andrew Bastow	Head of Securities Services
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Morgan Stanley	Mr Craig McGuire	Head of Operations
NSX	Mr Emlyn Scott	Chief Executive Officer
Morgans	Mr Peter Chisholm	Chief Operating Officer
UBS	Mr Conor Foley	Chief Operating Officer

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

APOLOGIES

MEMBERS		
Company	Name	Job Title
Bell Potter Securities	Mr Dean Surkitt	Managing Director Retail
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
Deutsche Bank AG	Mr Russel Deal	Chief Operating Officer
JP Morgan	Mr Samuel Mann	Chief Operating Officer
Patersons Securities	Mr Sam Budiselik	Chief Operating Officer
Pershing Securities	Mr Robert Forbes	Chief Operating Officer

The meeting commenced at 12.00pm.

AGENDA ITEM 1: INTRODUCTION AND OVERVIEW OF MEETING AGENDA

The Chair welcomed Committee members to the first meeting for the year.

AGENDA ITEM 2: SERVICE PERFORMANCE

a. Clearing and settlement service performance report

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

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

- the clearing and settlement services report and the trade acceptance service (TAS) report had been consolidated into a single report with side-by-side reporting of rejected trades from the ASX market and the Chi-X market, following feedback from the August 2013 Business Committee meeting;
- CHES system availability remained at 100% for both quarters;
- TAS system availability remained at 100% for the December quarter and 99.4% for the September quarter. There was a 27 minute outage in August 2013, which impacted 45 CHES users and Chi-X; and
- settlement efficiency for both quarters was 99.9%.

The Chair invited comments and sought feedback from the Committee in relation to whether any further information should be included in the report, and whether the background commentary to the report should be removed. The Committee agreed that the report, including the background commentary should continue in its current form.

b. Consultation paper on Trade Acceptance Service and Settlement Facilitation Service

The Committee noted that ASX released a consultation paper on 23 January 2013 regarding the service level agreements and information handling standards for the TAS and the Settlement Facilitation Service in accordance with its commitment in the Code of Practice.

The Chair noted that submissions in response to the consultation paper are due by 14 March 2014.

c. Activity and Fee Reporting for Clearing and Settlement Participants

The Committee noted the draft sample reports to be provided to clearing and settlement participants setting out their respective activity levels and fees paid included in the agenda paper. The Chair noted that the sample reports were prepared in response to feedback from the December 2013 Business Committee meeting requesting clearer reporting of ASX fees and the drivers of those fees.

ASX's Senior Manager, Clearing Services spoke to the draft reports included in the agenda paper, noting that they provided:

- individual metrics per PID, including greater details in relation to clearing and settlement by value/volume and fees paid for the period;
- data on settlement failure and related fees; and
- additional data to help participants benchmark the benefits received and fees paid compared to other clearing and settlement participants via market rankings.

A number of Members expressed support for the proposed new reporting and indicated that the sample reports provided a good reference point and would enable participants to engage with ASX to drill-down into the data.

A Member inquired if it would be possible to replicate this style of reporting for ASX's other business areas where there are lengthy invoices. The Chair indicated that there was merit in providing similar reporting in other business areas and that it was subject to internal consideration. Given the mandate of the Business Committee relates to cash market clearing and settlement, it was noted that any additional reporting for business areas would be progressed in other forums.

Notwithstanding the positive feedback received from the Committee, the Chair requested Members to provide any additional comments on the sample reports within the next 2 weeks. The Chair noted that ASX was aiming to develop and deliver the reports by April/May 2014 (for the March 2014 period).

AGENDA ITEM 3: BUSINESS MATTERS

a. International cost benchmarking

The Chair reminded the Committee that the international cost benchmarking was being progressed by ASX in accordance with a commitment in the Code of Practice to benchmark its service offering and the fee structure for post-trade services for cash equities. Oxera Consulting (Oxera) was engaged in early January to undertake this work.

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

- Oxera's benchmarking analysis is being prepared for the 23 June 2014 Forum meeting. Four responses to the request-for-proposal (RFP) were received late last year. Oxera had been appointed based on cost, their previous experience and their ability to deliver the analysis and report in the tight timeframe. Oxera had already commenced work and were in the process of performing desktop research and contacting intermediaries and other exchanges;
- the scope of the analysis being undertaken by Oxera was largely unchanged from that which was discussed at the last meeting;
- the analysis would focus on clearing and settlement costs and include a service comparison to assist with providing an understanding of the extent to which costs in different markets reflect different services or service levels provided. Oxera is proposing to undertake the analysis from both a top-down and bottom-up perspective; and
- Oxera had provided the draft user profiles to be used in the bottom-up analysis included in the agenda paper. The user profiles reflected a broad range of potential end-investor types based on a range of information sources, and ASX was seeking feedback from the Committee on whether the proposed user profiles were broadly indicative of users.

ASX's General Manager for Clearing Services introduced ASX's Senior Economic Analyst, who had been involved in assisting Oxera in the development of the user profiles. ASX's Senior Economic Analyst provided more background to the development of user profiles, noting that:

- the underlying purpose of the project was to understand the clearing and settlement fees paid by a range of investor types across a broad range of markets;
- the investor profiles were based on a range of publicly available information and ASX data;
- it would not be possible to compare costs for all investor types, but if the range of user profiles was broadly representative of the Australian market, including both local and international investors, this would provide for an assessment of relative costs; and

- there was scope to add an additional investor type as well as incorporate feedback from the Committee on the other user profiles.

ASX's Senior Economic Analyst then explained the assumed characteristics of each user profile.

The Chair invited comments and questions on the proposed user profiles. Members discussed and provided feedback on the user profiles and the scope of the analysis, including:

- a recommendation to add a global asset manager end-user to the analysis. The Chair agreed that ASX would discuss this issue with Oxera [**Agreed Action 1**];
- the basis for selecting the markets included in the analysis. The Chair noted that the Committee had previously discussed this issue and it had been broadly supportive of the markets selected on the basis that they provide a range of markets according to geographical location, market size and market structure, which include markets that have clearing competition. The Chair also noted that the final report will include an explanation of why the particular markets were chosen;
- whether the analysis and report would set out what impact clearing competition would have on the cost profile in the Australian market. The Chair noted that knowing what the impacts of competition in clearing may be in the future would be subjective and involve too many assumptions. It was noted that the report would instead provide a fact base comparing the current service offerings and fees with other markets, which would allow stakeholders to make their own assessments;
- whether the total cost of trading (including the market impact cost) would be considered as part of the analysis. The Chair noted that this would add considerable cost and complexity to the analysis and was outside the scope of the report on the basis that it was focused on the cost of post-trade processing;
- whether the analysis captures the differences between novated and non-novated transactions submitted for settlement. The Chair agreed that ASX would discuss this issue with Oxera [**Agreed Action 2**];
- whether the analysis covers primary issuance. The Chair noted that the benchmarking will cover the costs associated with secondary trading only; and
- whether the intermediary profiles and the analysis more broadly captures the different circumstances where the trading participant, clearing participant and settlement participant are not part of the same entity, for example, where a trading participant may use a third party clearer. The Chair agreed that ASX would discuss this issue with Oxera [**Agreed Action 3**].

The Chair requested that Members provide any further comments on the user profiles within the next two weeks. The Chair also invited participants who were interested in speaking directly to Oxera to provide feedback on the user profiles and assist with Oxera's understanding of the Australian market to contact ASX.

ASX's Senior Economic Analyst left the meeting.

b. Draft Consultation Paper on moving to a T+2 settlement cycle

The Committee noted the draft public consultation paper on transitioning to a T+2 settlement cycle for cash equities circulated separately to the other meeting papers.

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

- the draft public consultation paper reflected the feedback and strong support for shortening the settlement cycle ASX had received from industry stakeholders over the last few months;

- Members were requested to review the draft public consultation paper and provide any final comments on whether additional items should be canvassed in the paper within the next few days of the meeting. ASX would seek submissions by 7 April. This would allow a summary of responses to be discussed at the next Business Committee meeting and a recommendation to be provided to the Forum at its 23 June 2014 meeting; and
- if the proposal is implemented, ASX intended to engage with regulators regarding the potential to reduce the paid-in capital provided by ASX for clearing participant default management. A reduction in the paid-in capital would provide the opportunity for ASX Clear to reduce the clearing fee for cash equities.

Members expressed strong support for the draft consultation paper and discussed the importance of managing a number of implementation issues, including the need for accelerated cleared retail funds, the impact on corporate actions, potential rule changes and the need for an appropriate education program.

In the discussion, Members recommended that the consultation paper be revised to seek feedback on the following:

- the expected costs to implement a T+2 settlement cycle;
- whether a more aggressive implementation date (earlier than Q1 2016 (CY)) is feasible and supported by the industry;
- the timing and sequencing of the implementation of a T+2 settlement cycle with other markets, and
- whether an additional settlement batch should be considered to manage late settlements or whether there are other measures that could be taken to manage late settlements.

The Chair agreed that these items would be incorporated into the final version of the consultation paper [**Agreed Action 4**].

c. Feedback from Technical Committee on ISO 20022 on the roadmap for CHES

The Chair introduced ASX's General Manager of Clearing and Settlement Technology to update the Committee of the key matters discussed at the 7 February 2014 Technical Committee meeting.

It was noted that the Technical Committee provided the following feedback on early stage considerations for a strategy to replace CHES:

- Migration to ISO 20022 standard messaging should be undertaken in conjunction with CHES replacement on the basis that it was the most efficient and cost effective option;
- the preferred 'go-live' strategy would entail changes to all functional categories (i.e. clearing, settlement, sub-registry) being implemented concurrently with securities being migrated to the new infrastructure in batches. The Technical Committee emphasised the importance of minimising the overlap where the old and new infrastructure would run in parallel to manage complexities and costs; and
- subject to approval by the Business Committee, it endorsed its mandate and responsibilities being expanded such that it becomes the 'Technical Committee on CHES replacement'.

A Member queried whether migrating to ISO 20022 standard messaging at the same time that CHES is replaced was a higher risk implementation strategy. It was noted that the Technical Committee had considered this issue and had supported a tiered 'go-live' strategy whereby there is a phased approach to moving groups of securities to the new infrastructure on the basis that it mitigated such implementation risks whilst, at the same time, allowing the migration process to be sped up once the new infrastructure had been demonstrated to be stable.

A Member inquired whether consideration was being given to moving towards a multi-asset class system in the context of CHESSE replacement. The Chair confirmed that the need to change CHESSE as it related cash equities would form part of ASX's broader technology strategy.

The Chair noted that ASX would update the Committee on the development of its technology strategy and its future plans to refresh its cash market post-trade infrastructure at the next meeting. **[Agreed Action 5]**

The Chair also informed the Committee that ASX would seek input from the Technical Committee on ASX's cash market post-trade technology roadmap prior to providing it to the Business Committee for discussion. **[Agreed Action 6]**

The Committee approved the mandate of the Technical Committee being extended to encompass the replacement of CHESSE.

d. Roadmap for Clearing Participant Structures

The Committee noted the work undertaken by ASX to introduce greater flexibility in clearing participant structures to better reflect participant business models as set out in the agenda paper.

ASX's General Manager for Clearing Services, spoke to the agenda paper and invited feedback from Committee Members in relation to the prioritisation of initiatives to further facilitate flexible participant arrangements. Some Members expressed support for ASX continuing to progress tiered capital requirements for general clearing participants and also requested that ASX prioritise 'clearing only' participant structures in the Committee's forward work program. It was agreed that an update on 'clearing only' participant structures would be provided at the May Business Committee meeting. **[Agreed Action 7]**

The Chair noted that Members should contact ASX if they considered further initiatives in this area should be included in the forward work program.

AGENDA ITEM 4: MANAGEMENT ACCOUNTS FOR CASH MARKET CLEARING AND SETTLEMENT

ASX's CFO joined the meeting.

The Chair introduced ASX's CFO and invited comments from the Committee. The Chair noted that the cash market clearing and settlement income statements for the half year ended 31 December 2013 were broadly consistent with, and had not changed significantly from, the income statements for the year ended 30 June 2013 discussed at the last meeting.

There were no questions from Members to the CFO.

AGENDA ITEM 5: ADMINISTRATION

a. Forward Work Program

The Chair discussed the forward work program for the Committee set out in the agenda papers, and highlighted key topics for the four themes: capital efficiency and industry economics; participant structure flexibility and efficiency; service innovation; and technology and infrastructure enhancements.

Members discussed the forward work program and it was agreed that it should be updated to reflect the following:

- consideration of the different models for the capital contribution to the default fund by the CCP and participants should be included in the forward work program for discussion in the May meeting;

- consideration of alternatives to the current manual participant margin payment process through Austraclear should be included in the forward work program for discussion in the May meeting;
- ASX to provide an update on the development of its technology strategy and its future plans for the refresh of infrastructure for discussion in the May meeting;
- ASX to provide an update on 'clearing only' participant structures in the May meeting;
- discussion of participant location requirements should be delayed until the August meeting.

[Agreed Action 8]

b. Minutes from the 9 December 2013 meeting

The Chair noted the minutes from the 9 December 2013 meeting and invited comments. As there were no comments, the Chair noted that the minutes were approved.

c. Next meeting

The Committee noted that the next meeting will be held on Wednesday, 7 May 2014.

As there was no further business discussed, the meeting closed at 1.40pm.

Signed as a correct record of the meeting.



Chairman

26/3/2014

Date



BUSINESS COMMITTEE REPORT TO THE FORUM

From the 19 February 2014 Business Committee meeting

At its 19 February 2014 meeting, the Business Committee was invited to provide feedback on the investor and intermediary profiles for the user profile analysis in the international cost benchmarking, the draft consultation paper on transitioning to a T+2 settlement cycle for cash equities in Australia and the proposed new quarterly activity and fee reporting for clearing and settlement participants. The Business Committee was also updated on work underway to introduce greater flexibility in clearing participant structures and feedback from the Technical Committee in relation to the merit of migrating to ISO 20022 standard messaging in conjunction with the replacement of CHES.

Key Recommendations

The Business Committee recommended the following that:

- a global asset manager end-user be included in the user profile analysis for the international cost benchmarking;
- the draft consultation paper on the introduction of a T+2 settlement cycle should be revised to seek additional feedback in relation to expected implementation costs, the timing and sequencing of T+2 implementation with other markets and additional measures which could be considered to help manage late settlements in transitioning to a T+2 settlement cycle;
- ASX develop the new quarterly activity and fee reports for clearing and settlement participants; and
- ASX provide an update on the development of its technology strategy and its future plan to refresh its infrastructure at its next meeting.

Key Issues Discussed

- The appointment of Oxera Consulting (Oxera) to undertake the international cost benchmarking for cash market clearing and settlement services, and the scope of analysis commissioned, including the proposed investor and intermediary user profiles developed for the analysis.
- The strong industry support for the introduction of a T+2 settlement cycle for cash equities in the near term and the importance of managing a number of implementation issues, including the timing and sequencing of the introduction of T+2 with other markets, the need for accelerated cleared retail funds and the impact on corporate actions.
- The importance of considering the need to replace CHES as it relates to cash equities as part of ASX's broader technology strategy.

Agreed Actions

1. ASX to discuss the inclusion of a global asset manager end-user in the user profile analysis for the international cost benchmarking with Oxera.
2. ASX to seek clarification from Oxera in relation to whether the analysis for the international cost benchmarking captures the differences between novated and non-novated transactions submitted for settlement.
3. ASX to seek clarification from Oxera in relation to whether the intermediary profiles and the analysis for the international cost benchmarking more generally captures the different circumstances where the trading participant, clearing participant and the settlement participant are not part of the same entity, for example, where a trading participant may use a third party clearer.
4. ASX to revise the draft consultation paper on the introduction of a T+2 settlement cycle to seek feedback on the following:
 - the expected costs to implement a T+2 settlement cycle;
 - whether a more aggressive implementation date (earlier than Q1 2016 (CY)) is feasible and supported by the industry;
 - the timing and sequencing of the implementation of a T+2 settlement cycle with other markets, and
 - whether an additional settlement batch should be considered to manage late settlements or whether there are other measures that could be taken to manage late settlements.
5. ASX to update the Committee on the development of its technology strategy and its future plans to refresh its cash market post-trade infrastructure at the 7 May Business Committee meeting.
6. ASX to seek input from the Technical Committee on ASX's cash market post-trade technology roadmap prior to providing it to the Business Committee for discussion.
7. ASX to update the Committee on 'clearing only' participant structures at the 7 May Business Committee meeting.
8. ASX to update the forward work program to reflect the following:
 - consideration of the different models for the capital contribution to the default fund by the CCP and participants should be included in the forward work program for discussion in the May meeting;
 - consideration of alternatives to the current manual participant margin payment process through Austraclear should be included in the forward work program for discussion in the May meeting;
 - ASX to provide an update on the development of its technology strategy and its future plans for the refresh of infrastructure for discussion in the May meeting;
 - ASX to provide an update on 'clearing only' participant structures in the May meeting;
 - discussion of participant location requirements should be delayed until the August meeting.