



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 CHES replacement. The Chair confirmed that the need to change CHES 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 CHES.

#### **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