



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

- 1. Introduction and update on outcomes of Forum meeting**
- 2. Service Performance**
 - a. Cash market clearing and settlement operational performance report
 - b. Verbal update on quarterly report on activity level and fees for individual participants
- 3. Management accounts for cash market clearing and settlement**

Presentation of the management accounts for cash market clearing and settlement services for the year ended 30 June 2014.
- 4. Business Matters**
 - a. Roadmap for cash market post-trade services infrastructure
 - b. Transitioning to a T+2 settlement cycle in Q1 2016
 - c. Clearing participant structures – considerations for principal to principal clearing
 - d. Guidance on outsourcing and offshoring
- 5. Regulatory Updates**
 - a. ASX Clear recovery plans
 - b. ASX Clear and European capital risk weightings
 - c. ASX Clear Operating Rules Update
- 6. Administration**
 - a. Forward work program
 - b. Code of Practice review and proposed Business Committee meeting dates
 - c. Minutes from the 7 May 2014 meeting
 - d. Other Matters

ATTENDEES

MEMBERS		
Company	Name	Job Title
ASX	Mr Peter Hiom	Business Committee Chair Deputy CEO, ASX
ABN AMRO Clearing	Mr Barry Parker	Managing Director
APX	Mr David Lawrence	Chief Operating Officer & Company Secretary
Bank of America Merrill Lynch	Mr Anatoly Kirievsky	Head of Compliance
BBY Ltd	Mr Arun Mahraj	Chief Executive Officer
BNP Paribas	Mr Justin Christopher	Chief Operating Officer
Chi-X Australia	Mr Jamie Clark	Director Markets and Operations
Citi	Mr Miles O'Connor	Director, Direct Custody & Clearing Securities & Funds Services
Commonwealth Bank of Australia	Mr Sheridan Thompson	Head of Strategic Development, CommSec
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
Deutsche Bank AG	Mr Russell Deal	Chief Operating Officer
HSBC	Mr Andrew Bastow	Head of Securities Services
J.P. Morgan (by telephone)	Mr Samuel Mann	Business Manager, Australia Equities
Goldman Sachs	Mr Greg Hanlon	Head of Operations
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Morgans	Ms Sue Gye	Manager Operations
Morgan Stanley	Mr Craig McGuire	Head of Operations
Pershing Securities	Mr Rob Forbes	Chief Operating Officer
UBS	Mr Conor Foley	Chief Operating Officer

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

APOLOGIES

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

The meeting commenced at 12.05pm.

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

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

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

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

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

AGENDA ITEM 2: SERVICE PERFORMANCE

a. Clearing and settlement services operational performance report

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

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

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

There were no questions on the report.

b. Activity and Fee Reporting for Clearing and Settlement Participants

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

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

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

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

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

There were no questions from Members to the CFO.

AGENDA ITEM 4: BUSINESS MATTERS

a. Roadmap for Cash Market Post Trade Services Infrastructure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b. Transitioning to a T+2 Settlement Cycle

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

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

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

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

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

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

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

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

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

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

The Chair noted that the Committee had agreed at its May meeting that further work on principal to principal (P2P) clearing arrangements should be progressed in two phases: (1) obtain regulatory clarity on the 'look through' of retail client obligations to clearing participants, and (2) further examine the development of P2P clearing arrangements in light of that clarification.

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

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

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

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

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

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

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

d. Guidance on outsourcing and offshoring

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

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

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

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

AGENDA ITEM 5: REGULATORY UPDATES

a. ASX Clear Recovery Plans

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

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

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

b. ASX Clear and European Capital Risk Weightings

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

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

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

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

c. ASX Clear Operating Rules Update

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

AGENDA ITEM 6: ADMINISTRATION

a. Forward Work Program

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

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

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

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

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

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

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

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

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

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

c. Minutes from the 7 May 2014 meeting

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

d. Next meeting

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

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

Signed as a correct record of the meeting.



Chairman

23/9/2014

Date

