



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

1. Introduction with lunch served on arrival

2. Global Trends in Outsourcing

Boston Consulting Group presentation on global outsourcing trends

3. Service Performance

a. Cash market clearing and settlement operational performance report

b. Update on quarterly report on activity level and fees for individual participants

4. Business Matters

Existing initiatives

a. International cost benchmarking

b. Consultation on transitioning to a T+2 settlement cycle

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

New initiatives for consideration under the forward work program

d. Clearing participant structures

e. Capital and risk review

f. Corporate actions straight-through-processing (STP)

5. Administration

a. Forward work program

b. Minutes from the 19 February 2014 meeting

c. Briefing on the international cost benchmarking report

d. Next meeting

ATTENDEES

MEMBERS		
Company	Name	Job Title
ASX	Mr Peter Hiom	Business Committee Chair Deputy CEO, ASX
ABN AMRO Clearing	Mr Barry Parker	Managing Director
APX	Mr David Lawrence	Chief Operating Officer & Company Secretary
Bank of America Merrill Lynch	Mr Anatoly Kirievsky	Head of Compliance
BBY Ltd	Mr Arun Mahraj	Chief Executive Officer
Bell Potter Securities (by telephone)	Mr Dean Surkitt	Managing Director Retail
BNP Paribas	Mr Justin Christoper	Chief Operating Officer
Citi	Mr Miles O'Connor	Director, Direct Custody & Clearing Securities & Funds Services
Commonwealth Bank of Australia	Mr Sheridan Thompson	Head of Strategic Development, CommSec
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
Deutsche Bank AG	Mr Russel Deal	Chief Operating Officer
HSBC	Mr Andrew Bastow	Head of Securities Services
J.P. Morgan (by telephone)	Mr Samuel Mann	Business Manager, Australia Equities
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Morgans	Ms Sue Gye	Manager Operations
Morgan Stanley	Mr Craig McGuire	Head of Operations
NSX (by telephone)	Mr Scott Evans	General Manager & Company Secretary
Patersons Securities (by telephone)	Mr Sam Budiselik	Chief Operating Officer
Pershing Securities	Mr Rob Forbes	Chief Operating Officer

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

APOLOGIES

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

The meeting commenced at 12.00pm.

Some of the agenda items were considered out of order. For convenience, they are recorded in the order set out in the Agenda.

AGENDA ITEM 1: INTRODUCTION AND OVERVIEW OF MEETING AGENDA

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

AGENDA ITEM 2: GLOBAL TRENDS IN OUTSOURCING

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

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

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

Mr Stretch and Mr Gattorna left the meeting.

AGENDA ITEM 3: SERVICE PERFORMANCE

a. Clearing and settlement service performance report

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

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

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

b. Activity and Fee Reporting for Clearing and Settlement Participants

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

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

AGENDA ITEM 4: BUSINESS MATTERS

a. International Cost Benchmarking

ASX's Senior Economic Analyst joined the meeting.

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

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

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

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

ASX's Senior Economic Analyst left the meeting.

b. Transitioning to a T+2 Settlement Cycle

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

d. Clearing participant structures

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

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

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

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

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

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

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

e. Capital and Risk Review

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

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

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

f. Corporate Actions Straight Through Processing

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

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

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

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

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

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

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

AGENDA ITEM 5: ADMINISTRATION

a. Forward Work Program

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

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

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

b. Minutes from the 19 February 2014 meeting

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

c. Next meeting

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

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

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

Signed as a correct record of the meeting.



Chairman

16/6/2014

Date