



## AGENDA

### Business Committee Meeting

Timing: Wednesday, 4 March 2015 commencing at 12.00pm

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

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|--|-------------------|
| <b>1. Introduction with lunch served on arrival</b>  | 12.00pm – 12.10pm |
| <b>2. Consultation process on the Code of Practice</b>   | 12.10pm – 12.25   |
| The Business Committee will be updated on the consultation on the operational improvements to the Code of Practice.  |                   |
| <b>3. Service Performance</b>  | 12.25pm – 12.30pm |
| The Business Committee will be provided with a report on the operational performance of cash market clearing and settlement services.  |                   |
| <b>4. Management accounts for cash market clearing and settlement</b>  | 12.30pm – 12.40pm |
| The management accounts for cash market clearing and settlement services for the half year ended 31 December 2014 were released, together with ASX's half year results, on 12 February 2014.                   |                   |
| <b>5. Business Matters</b>   |                   |
| a. Admission of foreign ADIs as clearing participants  | 12.40pm – 12.50pm |
| The Business Committee will be provided with an overview of the arrangements which are being put in place to facilitate the admission of foreign ADIs as clearing participants.                                |                   |
| b. Principal-to-principal clearing arrangements  | 12.50pm – 1.00pm  |
| The Business Committee will be provided with a verbal update on workshops examining the considerations and potential development of principal to principal clearing arrangements.                              |                   |
| c. Introduction of T+2 settlement and a change to the batch settlement cut-off time  | 1.00pm – 1.10pm   |
| The Business Committee will be provided with a response to a suggestion that the move to an 11.30am batch settlement cut-off be implemented ahead of the introduction of a T+2 settlement cycle in March 2016. |                   |
| d. Corporate actions STP   | 1.10pm – 1.25pm   |
| The Business Committee will be provided with a proposal for a potential phase 2 of corporate actions STP.  |                   |
| e. ASX investment in trading and post-trade services infrastructure  | 1.25pm – 1.40pm   |
| The Business Committee will be updated on ASX's investment in infrastructure.  |                   |

## **6. Regulatory Updates**

- a. FSS account protections 1.40pm – 1.55pm

The Business Committee will be provided with a verbal update on the implementation of FSS account protections in the May 2015 CHES release.

- b. Review of HIN sponsorship arrangements 1.55pm – 2.10pm

The Business Committee will be provided with an overview of the key findings of an ASX review of HIN sponsorship arrangements.

- c. Update on ASX consultation process on reducing red tape for participants 2.10pm – 2.20pm

The Business Committee will be updated on the outcomes from the consultation process, including the transition arrangements for the Guidance Note on Outsourcing and Offshoring, and will be provided with draft guidance for admissions to ASX Clear and ASX Settlement.

## **7. Administration**

2.20pm – 2.25pm

- a. Forward work program

The Business Committee will be updated on the forward work program for 2015.

- b. Minutes from the 27 November 2014 meeting

- c. Other Matters

## **8. Next Meeting**

2.25pm – 2.30pm

The next meeting of the Business Committee is scheduled for Wednesday, 27 May 2015, commencing at 12.00pm.

## ATTENDEES

<b>MEMBERS</b>		
<b>Company</b>	<b>Name</b>	<b>Job Title</b>
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
Bell Potter Securities	Mr Dean Surkitt	Managing Director Retail
BNP Paribas	Mr Justin Christopher	Chief Operating Officer
Chi-X Australia	Mr Jamie Crank	Head of Product
Citi	Mr Miles O'Connor	Director, Direct Custody & Clearing Securities & Funds Services
Commonwealth Bank of Australia	Mr Sheridan Thompson	Head of Strategic Development, CommSec
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
Deutsche Bank AG	Mr Russell Deal	Chief Operating Officer
Goldman Sachs	Ms Yen Le	Head of Australia & New Zealand Settlements
HSBC	Mr Robert Brown	Head of Client Management, HSBC Securities Services
J.P. Morgan	Mr Samuel Mann (by telephone)	Business Manager, Australia Equities
Macquarie Group	Mr Cameron Ritchie (by telephone)	Chief Operating Officer Australia/New Zealand
Morgan Stanley	Mr Craig McGuire	Head of Operations
Morgans	Ms Sue Gye	Manager Operations
NSX	Mr Emlyn Scott	Chief Executive Officer
Patersons Securities	Ms Jane Irwin (by telephone)	Head of Operations
Pershing Securities	Mr Rob Forbes	Chief Executive Officer
UBS	Mr Conor Foley	Chief Operating Officer

<b>ASX Management</b>	
<b>Name</b>	<b>Job Title</b>
Ms Amanda Harkness	Group General Counsel & Company Secretary
Mr Tim Hogben	Group Executive, Operations
Mr Ramy Aziz (Item 4)	Chief Financial Officer
Mr Tim Thurman (Item 5e)	Chief Information Officer
Ms Danielle Henderson	General Manager, Clearing Services
Mr Andrew White	General Manager, Settlement Services
Mr Marcin Firek	General Manager, Company Secretariat
Mr Brendan Luscombe (Item 6a)	General Manager, Clearing Risk Management
Ms Diane Lewis	Senior Manager, Regulatory and Public Policy
Mr Rodd Kingham	Senior Manager, Clearing Services
Mr Con Korkofigas (Item 5b)	Legal Counsel and Senior Manager
<b>ASX Compliance Management</b>	
<b>Name</b>	<b>Job Title</b>
Ms Fiona Hooymans (Items 6b & 6c)	General Manager, Participants Compliance

## APOLOGIES

<b>MEMBERS</b>		
<b>Company</b>	<b>Name</b>	<b>Job Title</b>
BBY Ltd	Mr Arun Mahraj	Chief Executive Officer
Goldman Sachs	Mr Greg Hanlon	Head of Operations
HSBC	Mr Andrew Bastow	Head of Securities Services
Morgans	Mr Peter Chisholm	Chief Operating Officer
Morgans	Mr Brad Yates	Senior Manager, Operations
Patersons Securities	Mr Sam Budiselik	Chief Operating Officer

## BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 2

<b>Topic</b>	<b>Consultation process on the Code of Practice</b>
<b>Date of the Meeting</b>	4 March 2015
<b>Purpose of this paper</b>	To update the Business Committee on the consultation on the proposed operational improvements to the Code of Practice.
<b>Action required</b>	To the note the agenda paper.

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### OVERVIEW

At the 27 November 2014 meeting, ASX outlined a number of proposed operational improvements to the Code of Practice for Clearing and Settlement for Cash Equities in Australia (the Code) and, in particular, sought feedback from the Business Committee in relation to the proposal to update international cost benchmarking every two years instead of annually.

### CONSULTATION ON AMENDMENTS TO THE CODE OF PRACTICE

In December 2014, ASX released a consultation paper seeking comment on proposed operational improvements to the Code of Practice for Clearing and Settlement for Cash Equities in Australia (the Code). Consideration was given to the feedback received from the Business Committee in preparing the consultation paper. For example, the proposal for annual consultation undertaken as part of the external audit process to be directed to consultation with the Forum was expanded to also include consultation with the Business Committee.

Submissions in response to the consultation paper are due by 27 February 2015. To date, ASX has received one confidential submission. Following the consultation period, ASX will consider the feedback received and make further changes as appropriate. Before making any changes, ASX is required to consult the Council of Financial Regulators (CFR).

The consultation paper is available [here](#).

### REVIEW OF COMPETITION IN CLEARING AUSTRALIAN CASH EQUITIES

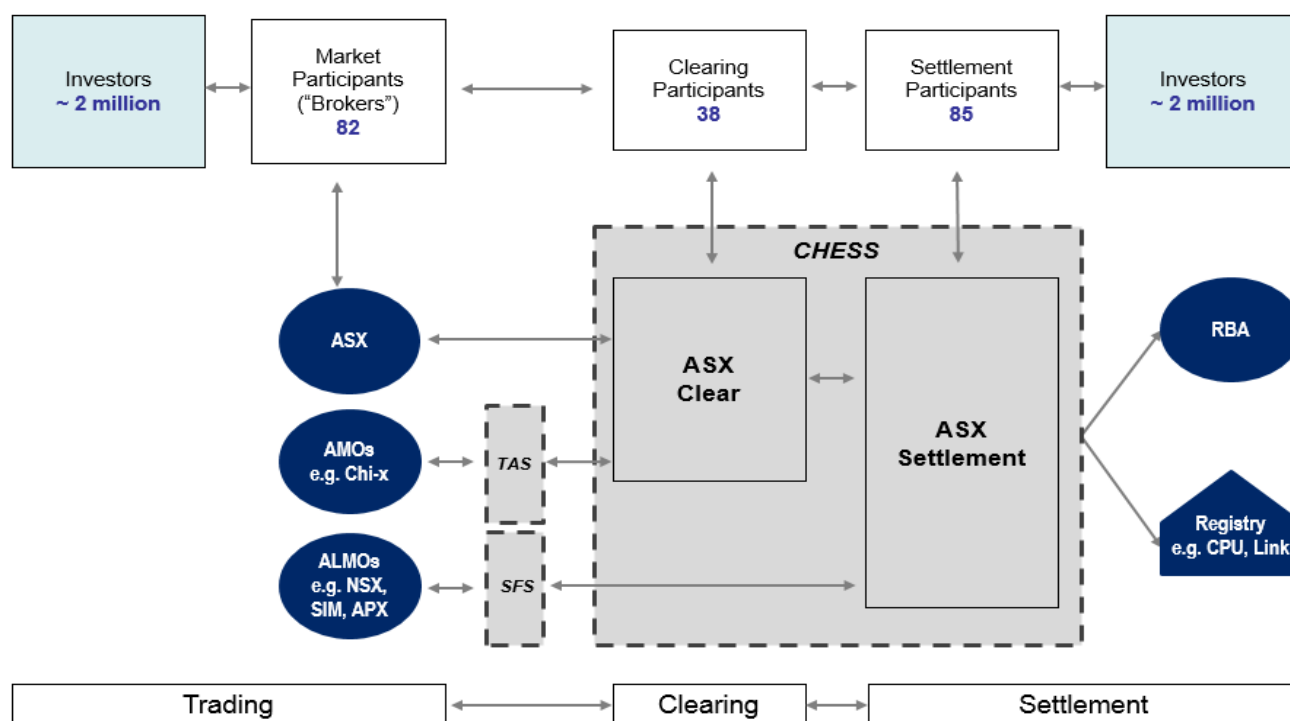
On 11 February 2015, the Assistant Treasurer announced that the CFR would conduct a review of competition in the clearing of Australian cash equities. The CFR has released a consultation paper, which is available [here](#).

ASX will not make any changes to the Code until this review is complete and the Government has made a decision on this matter.

# FORUM MEETING PAPER AGENDA ITEM 3

<b>Topic</b>	<b>Report on the operational performance of cash market clearing and settlement services</b>
<b>Date of the Meeting</b>	4 March 2015
<b>Purpose of this paper</b>	To report on key performance metrics for ASX's clearing and settlement services.
<b>Action required</b>	To note the agenda paper.

## BACKGROUND



The clearing and settlement of equities performs a critical role in the operation of Australia's financial markets, helping to reduce counterparty and systemic risk, and provide transaction efficiency and certainty for end investors.

Core processes that provide these benefits include novation, netting and settlement.

### Novation

Through a contractual process known as novation, ASX Clear becomes the seller to every buyer and the buyer to every seller, making it liable for completing all cleared transactions on the relevant market. Novation is deemed to occur at the point of trade and performs two important functions:

- it replaces the clearing participants' credit exposures to other clearing participants by substituting the clearing house as the central counterparty; and
- it enables the netting of settlement obligations.

Through novation, ASX Clear provides protection to non-defaulting clearing participants (and, indirectly, their clients) from the inability of a defaulting clearing participant to meet its obligations.

A key metric for monitoring novation is the percentage of on and off market trading that is novated.

Prior to novation, CORE (for ASX) and the Trade Acceptance Service (for AMOs – other trade execution venues) perform verification functions for trades submitted to ASX Clear. Following verification trades are registered for clearing. If the verification conditions are not satisfied then trades are rejected and not submitted to CHES. Once a trade is registered it is novated. Novation is deemed to have occurred at the point of trade for all trade execution venues.

## **Netting**

ASX Clear is approved as a 'netting market' for the purposes of the Payment Systems and Netting Act. This enables the netting of settlement obligations in each individual equity, providing greater market efficiency at the time of settlement and reducing participant transaction and funding costs.

A key metric for monitoring netting is the percentage by which novated value is netted down for settlement. This metric is termed "netting efficiency".

## **Settlement**

ASX's model for settlement maximises efficiency, while minimising the risk of settlement failure. It does this by simultaneously transferring the legal ownership of shares and facilitating the transfer of money for those shares. This is done through a Model 3 multilateral net batch settlement mechanism with irrevocable settlement finality at the end of the processing cycle. The transfer of money occurs across the Exchange Settlement Accounts of payment providers in the RBA's Information and Transfer System (RITS).

A key metric for monitoring settlement is the percentage of scheduled settlement that successfully settles (i.e. the opposite of the "fail rate"). This metric is termed "settlement efficiency".

## **Service availability**

ASX's critical processes of novation, netting and settlement and are supported in ASX's core system CHES. It is critical for market operations, that CHES remains stable and available for processing. A key metric for monitoring systems availability is the percentage of systems uptime as measured against target availability times. The service availability target for CHES is 99.80%.

For the December 2014 quarter, the average monthly system availability was 100% for CHES. The average monthly availability of CHES has been 99.99% between November 2011 and December 2014.

## **Trade Acceptance Service**

ASX Clear's Trade Acceptance Service (TAS) provides a mechanism for Chi-X to submit trades into the clearing house. The CHES system performs the clearing and settlement functions.

The Trade Acceptance Service availability target for TAS is 99.80% (the same as CHES).

For the December 2014 quarter, the average monthly system availability was 100% for the TAS. The average monthly availability of the TAS has been 99.99% between November 2011 and December 2014 (which is the same as CHES).

## **REPORTING ON CLEARING AND SETTLEMENT SERVICE PERFORMANCE**

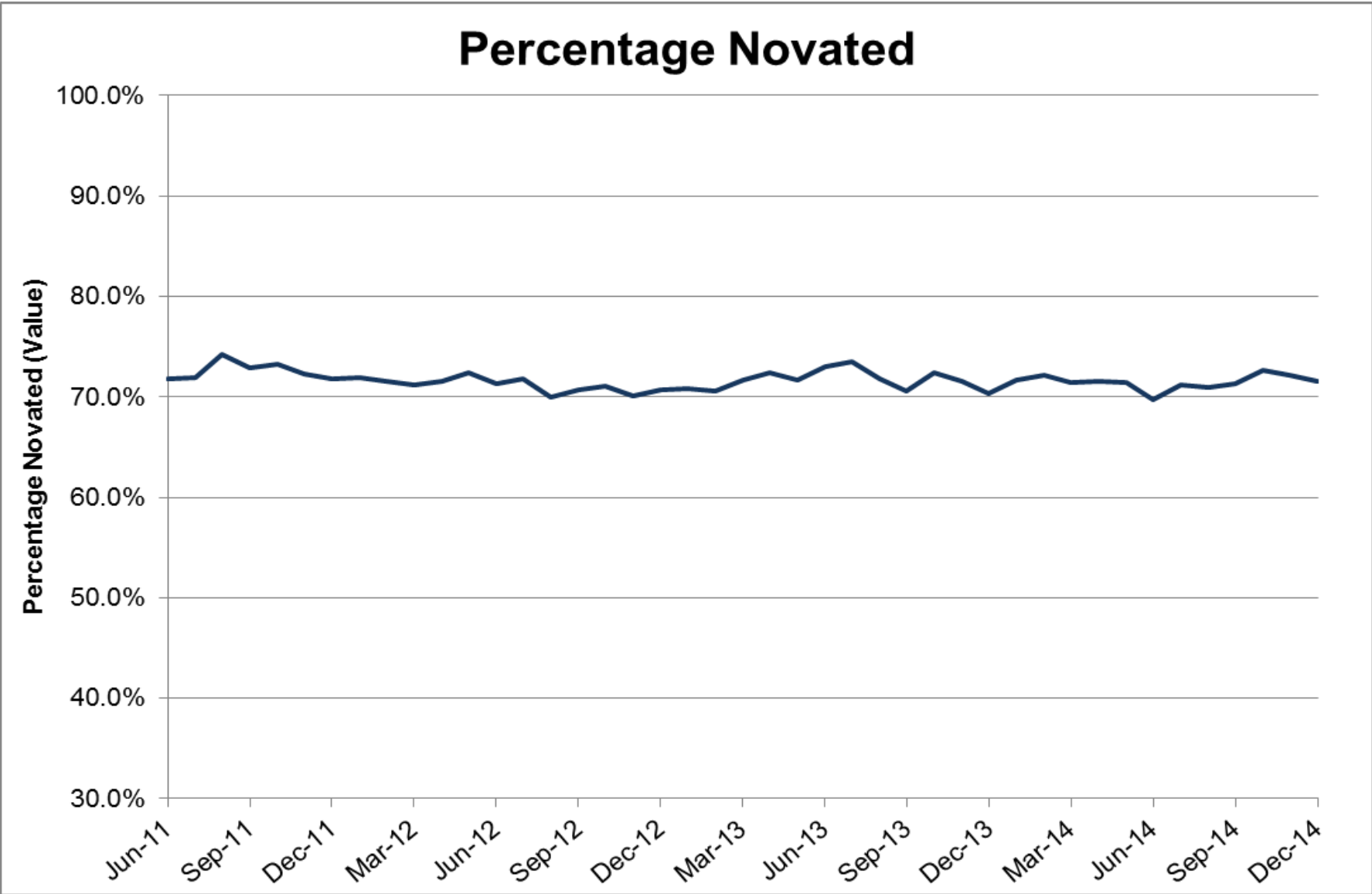
The key metrics noted above on novation, netting efficiency and settlement efficiency for the December 2014 and the September 2014 quarters are reported in Attachment A. They are also supported by charts demonstrating a longer reporting period in Attachment B.

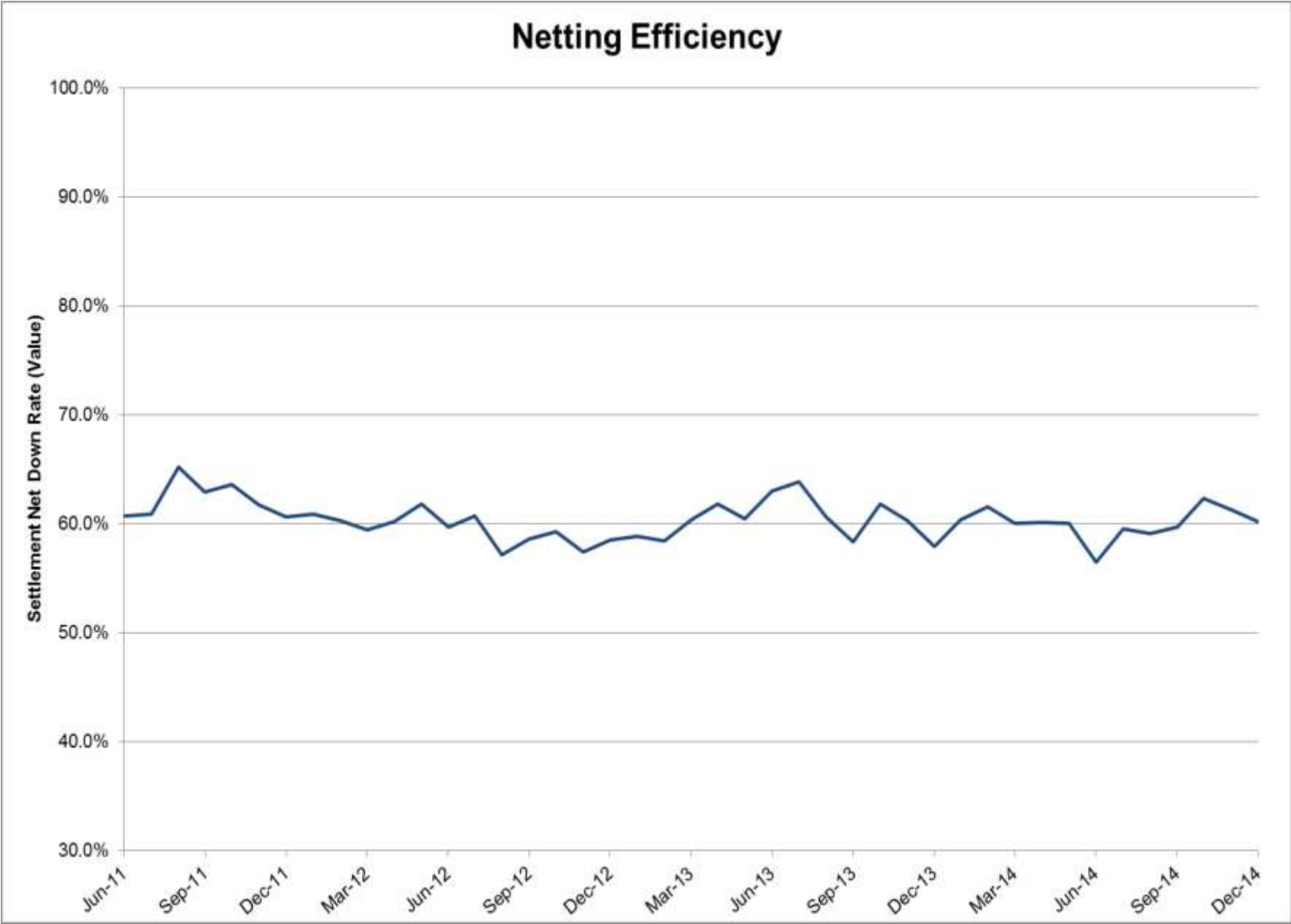
## ATTACHMENT A – SUMMARY METRICS RELATING TO THE PERFORMANCE OF ASX'S CLEARING AND SETTLEMENT SERVICES

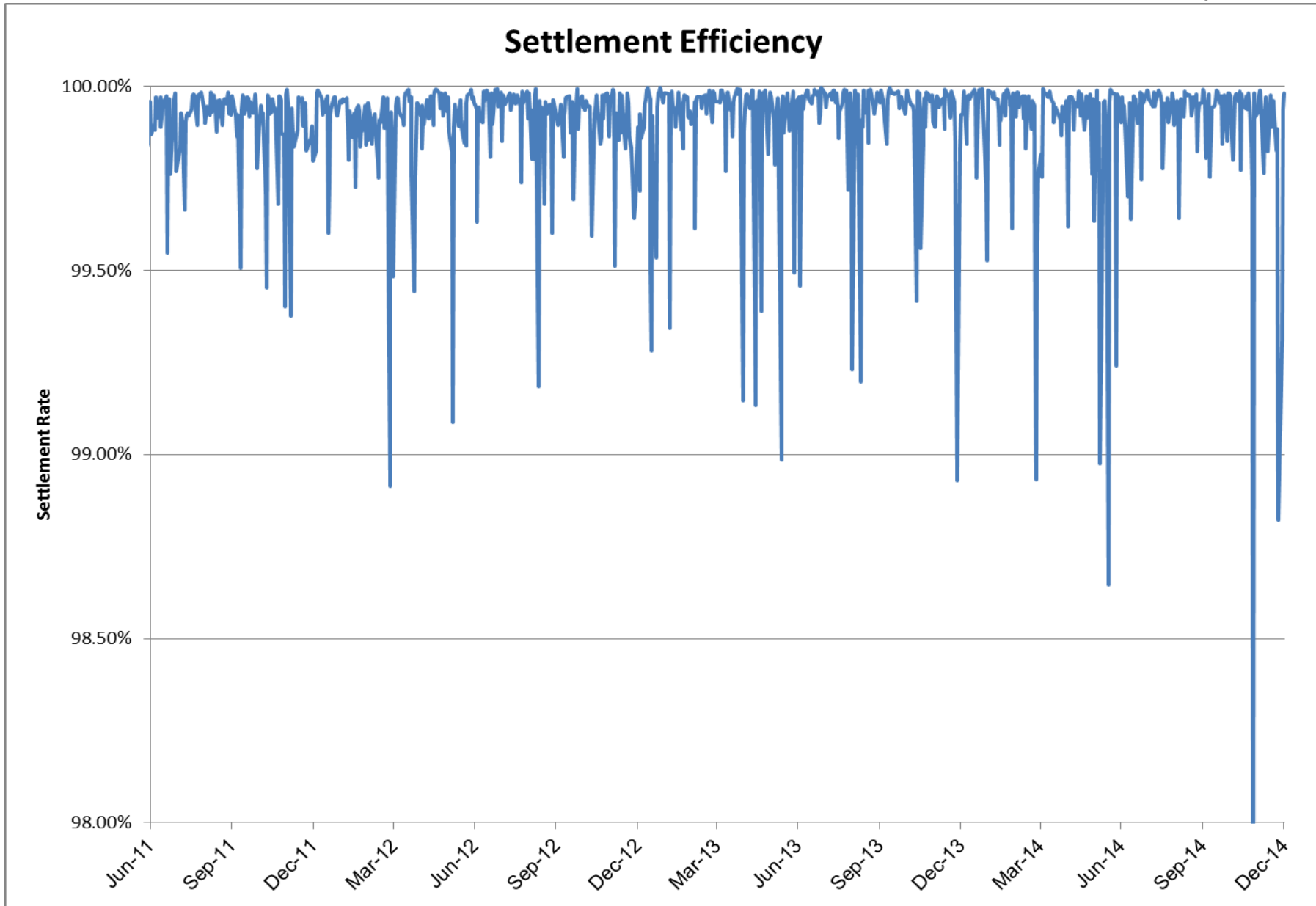
	December 2014 Quarter	September 2014 Quarter
System Availability (CHESS)	100%	100%
System Availability (TAS)	100%	100%
Total Trades Accepted (ASX)	46,623,459	47,570,040
Total Trades Accepted (AMOs)	12,146,760	12,393,693
Total Trades Rejected (ASX)	119	15
Total Trades Rejected (AMOs)	1	3
Daily Average Traded Value (On and Off Market)	\$5.6 billion	\$5.2 billion
Daily Average Cleared Value	\$4.0 billion	\$3.7 billion
Percentage Novated	72.1%	71.1%
Daily Average Cleared Value Post-Netting	\$1.6 billion	\$1.5 billion
Netting Efficiency	61.3%	59.4%
Daily Average Settled Value (Including Non-Novated)	\$8.4 billion	\$7.9 billion
Settlement Efficiency	99.9%	99.9%



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







## BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4

<b>Topic</b>	<b>Management Accounts</b>
<b>Date of the Meeting</b>	4 March 2015
<b>Purpose of this paper</b>	To inform the Business Committee of the cash market clearing and settlement management income statements for the half-year ended 31 December 2014.
<b>Action required</b>	To note the agenda paper.

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On 12 February 2015, ASX published, together with ASX Limited's half-year financial results, cash market clearing and settlement management income statements for the half-year ended 31 December 2014.

Both management income statements have been prepared based on management information provided in accordance with ASX's internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia. The ASX internal cost allocation and transfer pricing policy is available on the [ASX website](#).

The cash market clearing and settlement management income statements for the year ended 31 December 2014 are provided in Attachments A and B.

### CASH MARKET CLEARING

The cash market clearing management income statement reflects a profit after tax of \$13.5 million, an economic profit after capital charge of \$2.5 million and a return on equity of 12.3%.

Total capital allocated to cash market clearing is \$218.1 million. It comprises default capital, operational capital and invested capital representing the value of fixed assets and intangibles supporting this activity.

The management accounts do not include clearing of equity options.

### CASH MARKET SETTLEMENT

The cash market settlement management income statement reflects a profit after tax of \$12.3 million, an economic profit after capital charge of \$5.0 million and a return on equity of 17.5%.

Total capital allocated to cash market settlement is \$140.0 million. This comprises business / operational risk capital and invested capital.

### ATTACHMENTS

Attachment A – Cash Market Clearing Management Income Statement

Attachment B – Cash Market Settlement Management Income Statement

**Management Income Statement – Cash Market Clearing**

	<b>1H15</b> \$ Million	<b>1H14</b> \$ Million
<b>Revenue</b>		
Cash market clearing	24.1	22.0
Revenue sharing rebate	(1.1)	(0.3)
Participation fees	0.1	0.1
Technical services	0.1	0.1
<b>Operating revenue</b>	<b>23.2</b>	<b>21.9</b>
<b>Expenses</b>		
Staff	3.6	3.4
Equipment	0.8	0.8
Occupancy	0.5	0.5
Administration	0.5	0.5
<b>Cash operating expenses</b>	<b>5.4</b>	<b>5.2</b>
<b>EBITDA</b>	<b>17.8</b>	<b>16.7</b>
Depreciation and amortisation	1.0	1.0
<b>EBIT</b>	<b>16.8</b>	<b>15.7</b>
Net interest income	2.5	2.6
<b>Total net interest income</b>	<b>2.5</b>	<b>2.6</b>
<b>Profit before tax</b>	<b>19.3</b>	<b>18.3</b>
Tax expense	(5.8)	(5.5)
<b>Profit after tax</b>	<b>13.5</b>	<b>12.8</b>
Capital charge	(11.0)	(10.8)
<b>Economic profit after capital charge</b>	<b>2.5</b>	<b>2.0</b>
<b>EBITDA margin</b>	<b>76.6%</b>	<b>76.4%</b>
Total Capital	218.1	215.7
<b>Return on capital</b>	<b>12.3%</b>	<b>11.8%</b>

Cash Market Clearing based on 'Cover 2' Financial Stability Standard for entire period. 1H14 has been restated for comparability

**Management Income Statement – Cash Market Settlement**

	<b>1H15</b> \$ Million	<b>1H14</b> \$ Million
<b>Revenue</b>		
Cash market settlement	21.8	21.2
Revenue sharing rebate	(0.3)	(0.3)
Settlement access revenue	0.1	0.1
Participation fees	0.2	0.2
Settlement fail fees	0.8	0.7
Technical services	0.2	0.2
<b>Operating revenue</b>	<b>22.8</b>	<b>22.1</b>
<b>Expenses</b>		
Staff	4.1	3.9
Equipment	1.2	1.1
Occupancy	0.5	0.5
Administration	0.8	0.8
<b>Cash operating expenses</b>	<b>6.6</b>	<b>6.3</b>
<b>EBITDA</b>	<b>16.2</b>	<b>15.8</b>
Depreciation and amortisation	0.1	0.1
<b>EBIT</b>	<b>16.1</b>	<b>15.7</b>
Net interest income	1.5	1.6
<b>Total net interest income</b>	<b>1.5</b>	<b>1.6</b>
<b>Profit before tax</b>	<b>17.6</b>	<b>17.3</b>
Tax expense	(5.3)	(5.2)
<b>Profit after tax</b>	<b>12.3</b>	<b>12.1</b>
Capital charge	(7.3)	(7.0)
<b>Economic profit after capital charge</b>	<b>5.0</b>	<b>5.1</b>
<b>EBITDA margin</b>	<b>71.2%</b>	<b>71.6%</b>
Total Capital	140.0	133.9
<b>Return on capital</b>	<b>17.5%</b>	<b>18.0%</b>

# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5A

<b>Topic</b>	<b>Admission of Foreign ADIs as Clearing Participants</b>
<b>Date of the Meeting</b>	4 March 2015
<b>Purpose of this paper</b>	The Business Committee will be provided with an overview of the arrangements which are being put in place to facilitate the admission of foreign ADIs as clearing participants.
<b>Action required</b>	To note the agenda paper.

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## OVERVIEW

In response to customer feedback, ASX will implement a change to its Procedures to facilitate the admission of Foreign ADIs (branches of foreign banks) on ASX Clear by broadening the class of ADIs that ASX Clear may exempt from the Risk Based Capital Requirements (including rule S1A) or the NTA Requirements, to include Foreign ADIs (and, for completeness, Australian-incorporated ADI subsidiaries of foreign banks).

The purpose of the amendment is to allow clearing participants the opportunity to realise capital efficiencies by participating in ASX Clear and ASX Clear (Futures) through the same legal entity. ASX Clear (Futures) already has a number of foreign ADI participants.

## ASX CLEAR CAPITAL REQUIREMENTS

ASX Clear may exempt a clearing participant that is an Authorised Deposit-Taking Institution under the Banking Act 1959 (ADI) from the requirement to comply with ASX Clear's risk-based capital requirements, if the participant can satisfy ASX Clear that it is subject to an appropriate level of prudential supervision. Exempt clearing participants satisfy their minimum capital obligations to ASX Clear by complying with applicable prudential requirements.

This exemption was previously only available to clearing participants that are Australian-owned bank ADIs. ASX Clear has amended its Procedures with effect from 4 March 2015 so that clearing participants that are ADIs in either of the following additional categories may also apply for exemption from ASX Clear's risk-based capital requirements:

- Australian branches of foreign banks ("Foreign ADIs"); and
- Australian-incorporated subsidiaries of foreign banks ("Foreign Subsidiary ADIs").

ASX Clear will consider applications for exemption from the risk-based capital requirements by prospective Foreign ADI participants on a case by case basis. By way of guidance, ASX Clear expects to conclude that Foreign ADIs that are subject to home prudential supervision in the US, UK, Germany, Switzerland or France, are subject to an appropriate level of prudential supervision. As Foreign Subsidiary ADIs are subject to the same legislative and prudential requirements as Australian-owned bank ADIs, ASX would conclude that Foreign Subsidiary ADIs are subject to an appropriate level of prudential supervision.

ASX Clear has applied for Third Country CCP recognition in the EU. Recognition will permit ASX Clear to admit a Foreign ADI that is incorporated in any member state of the EU as a clearing participant. Banks headquartered in other offshore jurisdictions that are interested in participating in ASX Clear through a Foreign ADI are encouraged to approach ASX Clear at an early stage so that ASX can assess any regulatory clearances it may need in those other jurisdictions.

## REGULATORY CONSIDERATIONS

ASX is aware that participants who wish to consolidate their membership in a Foreign ADI may need to consider a range of regulatory issues, including the scope of their banking and financial services licence authorisations. ASX will provide whatever assistance it can to participants, in discussions with regulatory agencies, to remove any regulatory obstacles that may remain to the admission of Foreign ADIs as clearing participants.

# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5C

<b>Topic</b>	<b>Introduction of a T+2 Settlement and a Change to the Batch Settlement Cut-Off</b>
<b>Date of the Meeting</b>	4 March 2015
<b>Purpose of this paper</b>	To update the Business Committee on the consideration of implementing the proposed 11.30am batch settlement cut-off time in advance of the implementation of T+2 for the cash market.
<b>Action required</b>	To note the agenda paper.

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## BACKGROUND

At its 27 November 2014 meeting, the Business Committee endorsed:

- the proposal to extend the batch settlement cut-off time from 10.30am to 11.30am; and
- the implementation of T+2 in March 2016.

At the meeting, a Member suggested that consideration should be given to implementing the 11.30am batch settlement cut-off time ahead of the introduction of T+2 because of the benefits it would provide participants supported by staff in their Asian offices. A question was also raised in relation to whether implementing the later batch cut-off time and T+2 at the same time posed greater risk.

## CONSIDERATIONS AND STAKEHOLDER FEEDBACK

ASX considers that there is a strong case for the implementation of both the change to the batch settlement cut-off time and a T+2 settlement cycle at the same time in March 2016, including that:

- the rationale for a later batch settlement cut-off time is to help maintain market efficiency with the introduction of a shorter settlement cycle;
- the settlement fail rates are very low (generally around 0.3%) under the current settlement arrangements. This demonstrates that the current timing of the batch cut-off under a T+3 settlement cycle is not significant impacting settlement efficiency;
- ASX does not consider that the implementation of the two changes at the same time poses additional risk for the industry;
- payment providers agreed to the change to the batch settlement cut-off time on the basis of a March 2016 implementation timeframe. Implementation of the change to the batch settlement cut-off time ahead of March 2016 would involve significant further engagement with payment providers and it is unlikely that they would agree to an earlier implementation given their current focus on the new payments platform; and
- further consultation with a number of industry stakeholders (participants, payment providers, APCA and the SAA) did not reveal strong support for the suggested change to the batch settlement cut-off time to be implemented ahead of T+2. This lack of industry support was on the basis of the anticipated duplication of project resources, internal and external system changes and testing (including conflicting projects already in plan, additional budget allocation).

## RECOMMENDATION

ASX proposes to proceed with the implementation of the change to the batch settlement cut-off time and a T+2 settlement cycle together in March 2016 on the basis of recent stakeholder feedback, implementation efficiency and the high level of settlement efficiency under the current settlement arrangements.

## NEXT STEPS

The next T+2 Market Implementation Group (MIG) is scheduled for the 19 March 2014.



# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5D

<b>Topic</b>	<b>Corporate Actions STP</b>
<b>Date of the Meeting</b>	4 March 2015
<b>Purpose of this paper</b>	To provide the Committee with a proposal for a potential phase 2 of Corporate Actions STP.
<b>Action Required</b>	To approve the proposal for a potential phase 2 of Corporate Actions STP.

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## BACKGROUND

The Corporate Actions STP initiative went live on 22 September 2014, with the delivery of four corporate action events: dividends; interest payments; reorganisations; and capital returns. These corporate action events account for around two-thirds of corporate action volumes announced by issuers and processed by ASX. The new announcement process will become mandatory for listed entities six months after go-live on Monday, 23 March 2015. Issuers have been advised of this mandatory date. The mandatory process will ensure 100% STP coverage for these corporate action events. ASX is continuing its training sessions for issuers in the new process during the first quarter of 2015 to help ensure readiness for the mandatory date. The planned post-go live items discussed at the 27 November 2014 Business Committee meeting have been delivered in two batches in December 2014 and March 2015.

To date, 128 corporate actions have been announced by issuers that have 'early adopted' and used the new online form process, including 113 dividends and 13 interest payments.

## OPTIONS FOR PHASE 2 OF CORPORATE ACTIONS STP

As discussed at the 27 November 2014 Business Committee meeting, ASX indicated that customers had put forward differing views with regard to the most valued solution for phase 2 in preliminary discussions. Customers identified the following two options:

### Option A

Provide an STP solution for the feedback loop for the corporate actions delivered in phase 1. This option would involve an STP solution from issuer to investor and back, which would remove significant, manual, paper-based processing for those customers. Of the four corporate actions delivered in phase 1, the likely feedback loop would be limited to DRP and currency elections for dividends. Under this option, ASX would facilitate a process from participants (on behalf of investors) back to the issuer (registry) to confirm their preference.

### Option B

Provide an end-to-end STP solution for five of the ten remaining corporate action types, which together total 21% of volume. The five corporate actions were identified in the 7 May 2014 Business Committee meeting as follows:

<b>Corporate Action Event Type</b>	<b>Volume (% of total)</b>	<b>Investor action?</b>
Non-Renounceable issue (including accelerated)	10%	Voluntary
Share Purchase Plan	7%	Voluntary
Renounceable issue (including accelerated)	2%	Voluntary
Bonus issue	1%	Mandatory
Priority Issue (non-pro rata)	1%	Voluntary

Additionally, ASX would consider further amendments to the dividend corporate action online form and ISO 20022 output to provide additional data with regard to tax information.

## CUSTOMER SURVEY

ASX has contacted a number of customers (including custodians, information vendors, a self-managed super fund provider, a provider of corporate actions software and processing services, and a retail broker) to seek feedback on the two options. A summary of the responses received is as follows:

- 7 respondents considered option B (STP for additional 5 corporate actions) to be of the greatest benefit to their operations.
- 2 respondents considered option A (feedback loop for Phase 1 corporate actions) to be of the greatest benefit to their operations.
- 1 respondent nominated both options as equally beneficial.
- For those respondents that nominated option B as the immediate preference, the majority stated they would still like ASX to pursue option A in the future.
- Customer responses also revealed a continued willingness to work with ASX to develop a solution for either option.

Based on the customer feedback, the dominant short term preference is to deliver an end to end STP solution for five additional corporate actions (option B). For those customers that expressed an interest in pursuing option A, most indicated that it would make more sense to undertake option A as part of CHES replacement, and after additional corporate actions (which are largely voluntary in nature and require a feedback loop) had been delivered as per option B.

## IMPLEMENTATION OPTIONS

ASX has undertaken preliminary estimates for the development and delivery of both implementation options.

Estimates for option A (the feedback loop) indicate that it could technically be achieved more easily by ASX than option B, notwithstanding any detailed consultation with the market on solution design. However, as a CHES development it would have a limited lifespan. As this option has been identified by customers as a lower value proposition, at this stage, ASX proposes that option B be revisited as a topic in for the context of the replacement of CHES.

While option B can leverage the STP solution delivered in Phase 1 of Corporate Actions STP (including its infrastructure), the incremental development of additional corporate actions under option B still represents a reasonable level of investment. The level of investment for option B is substantially above that required for option A according to preliminary estimates.

Notwithstanding the level of investment, ASX proposes option B be pursued given customers have identified option B as the higher value proposition. Whilst acknowledging and appreciating the work of two members of the Business Committee in collaborating with ASX on Phase 1, ASX notes that the viability of Phase 2 is dependent on this customer feedback equating to additional customers coming on-board with corporate actions via ISO 20022.

For option B, two approaches to delivery for consideration are:

- Deliver one corporate action at a time or deliver groups of similar corporate actions. This could provide for faster delivery to market. However, it may result in duplication of some work streams, which would impact ASX and external resourcing. An additional consideration is the requirement to seek ASIC approval of the new/revised Appendices to the ASX Listing Rules for each corporate action, which is usually involves a minimum six month lead time.
- Deliver the five corporate actions (and any update to the dividend corporate action) at the same time. This will allow a consolidated approach for ASX Listing Rule changes and regulatory approval, and potentially provide for synergies in resourcing and effort. However, it would involve a longer time frame for delivery of all the additional corporate actions to market.

## **NEXT STEPS**

ASX will further define the scope, cost and timeline for phase 2 based on feedback received from the Committee at this meeting.

## **QUESTIONS FOR THE BUSINESS COMMITTEE**

ASX would appreciate feedback from Business Committee Members on the following:

- Do you agree with ASX's proposal to proceed with option B (STP for five additional corporate actions) and including the proposal set out in option A (the feedback loop) in the project to replace CHES?
- Do you have a preference for the delivery approach for Phase 2: one corporate action delivered at a time (or similar corporate actions grouped); or all corporate actions delivered at the same time?

## BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5E

<b>Topic</b>	<b>ASX investment in trading and post-trade services infrastructure</b>
<b>Date of the Meeting</b>	4 March 2015
<b>Purpose of this paper</b>	To provide the Business Committee with an update on ASX's investment in infrastructure.
<b>Action required</b>	To note the paper.

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### ASX INVESTMENT IN TRADING AND POST-TRADE SERVICES INFRASTRUCTURE

This paper presents an update on ASX's investment in trading and post-trade services infrastructure.

On 12 February 2015, ASX announced to the market that it will upgrade all of its major trading and post-trade platforms over the next three to four years. The media release is provided in Attachment A.

The key elements of the announcement relating to the development of ASX's clearing and settlement services infrastructure include:

- As previously discussed with the Committee, the timing of this infrastructure investment:
  - The upgrade of trading and post-trade platforms will take place over the next three to four years.
  - The upgrade of the trading platform will take 18-24 months, which will be followed by an upgrade of post-trade platforms, including cash market clearing and CSD services.
  - Vendor selection and design scoping of the post-trade systems will take place in FY16.
- A decision on the new post-trade infrastructure investment is expected to be made in FY16 once there is clarity on the market structure for cash market clearing.
- A focus on consolidation of systems to offer customers greater simplicity, flexibility and scale efficiencies. This is consistent with feedback received from the Committee in relation to the potential benefits to participants of single connectivity to clearing and CSD services.
- The infrastructure investment will enable the use of global standard protocols, which will meet the principle previously agreed with the Committee that ASX's clearing and settlement services infrastructure should have international standard messaging interfaces.
- The infrastructure investment will provide multi-currency capabilities.

The Committee will be kept updated on this infrastructure investment as it is progressed. Following the Government decision on the market structure for cash market clearing, the Committee will be consulted on the design and scope of the new cash market post-trade infrastructure to replace CHES. The Committee will also be asked to reconvene the Technical Committee.

#### ATTACHMENTS

Attachment A – 12 February 2015 ASX Media Release - Investment in Infrastructure



## MEDIA RELEASE

12 February 2015

### ASX to invest in world-class technology

ASX has today announced that it will upgrade all of its major trading and post-trade platforms over the next three to four years. ASX's investment will help deliver greater innovation, efficiency and liquidity to customers, and strengthen ASX's position as one of the world's leading exchange groups.

The investment program will be implemented in phases, starting with the replacement of ASX's derivatives and equities trading platforms, risk management systems and market monitoring systems. This is expected to take 18 to 24 months. This will be followed by upgrades of ASX post-trade services, including cash market clearing and central securities depository services. Vendor selection and design scoping for this next phase will be made in FY16.

ASX's investment in leading technology recognises customer demand for richer product and service functionality, and for improved cost-effectiveness to operate in Australia's financial markets. ASX will consolidate the number of platforms and replace its unique systems with contemporary global solutions offering customers greater simplicity, flexibility and scale efficiencies. Other benefits include:

- Use of global standard protocols will allow customers to reduce their development, connectivity and maintenance costs.
- Modular design will improve flexibility and implementation time, enabling ASX to reduce development costs and deliver new products and services to market quicker.
- Multi-currency capabilities will enable ASX to trade and deposit instruments in the main currencies relevant to Australia's financial markets, supporting Australia's credentials as a regional financial centre. ASX expects that it will be able to support trading of equities and derivatives in the New Zealand dollar, US dollar and renminbi.
- New market monitoring and risk management systems will ensure the high quality of Australia's financial markets is maintained, supporting investor confidence and enabling customers to more efficiently use their capital.

By the end of the program, ASX will have deep relationships with a core group of world-class technology partners.

Swedish firm Cinnober Financial Technology will provide the trading solutions for ASX's equities and derivatives markets. ASX will start with the replacement of the ASX Trade24 derivatives platform, which has been in operation since 2007. This will be followed by the replacement of the equities platform. Cinnober provides technology solutions for a number of exchanges globally, including in the US, Europe, Brazil and South Africa.

TIBCO will provide the new market monitoring system. TIBCO is a US-headquartered global leader in infrastructure and business intelligence software, and has been working with ASX over the last nine months to implement new middleware technology that will allow for more efficient management of the overall infrastructure.

ASX will finalise selection of the vendor for its post-trade risk management technology, including the central margining engine which supports ASX's two clearing houses, in the coming weeks.

Technology providers for the other phases of the investment program will be selected over the next 12 months.

ASX will work closely with its customers to ensure that there is a smooth transition to the new platforms and to help them capture the benefits of the investment.

Elmer Funke Kupper, ASX Managing Director and CEO, said: "ASX provides critical infrastructure that sits at the centre of Australia's financial markets. Our investment in new technology will create a more flexible exchange infrastructure and deliver greater innovation to Australia's financial markets. The new infrastructure will also reduce the internal costs for ASX clients to connect to the exchange and improve time to market for new products. The program has been developed over the last twelve months and has involved extensive benchmarking of alternative solutions for the Australian market.

"ASX has already made significant investments in Australia's financial market infrastructure, particularly in post-trade services. The newly launched technology program will further support Australia's ambitions to be one of the leading financial markets in the world.

"These investments complement ASX's new 24 hour customer support centre set to open in the second half of FY15. The customer support centre will be located within ASX's Australian Liquidity Centre and will bring together ASX's operations, market surveillance and technology teams, alongside Australia's financial markets community. The new support centre will ensure Australia's financial markets continue to operate to the highest standards, and will deliver improved services to ASX's domestic and growing international customer base.

"The program will be phased and managed very tightly so that our customers can manage the implementation at their end. Over the last three years, we have made significant changes to the way we communicate with our clients and introduce change to Australia's financial markets. We will measure our success by their response."

ASX expects to manage the investment within a total group capital expenditure envelope of \$40-50 million per annum. The first phase of the investment, being the replacement of the derivatives and equities trading platforms, and risk management and market monitoring systems, is expected to cost approximately \$35 million in capital expenditure over two years.

**Further enquiries:**

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# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 6B

<b>Topic</b>	<b>Review of HIN Sponsorship Arrangements</b>
<b>Date of the Meeting</b>	4 March 2015
<b>Purpose of this paper</b>	To inform the Business Committee of the key findings and outcomes of an ASX review of sponsorship arrangements.
<b>Action required</b>	To note the agenda paper.

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## OVERVIEW

ASX recently conducted a review to understand how participants are managing processes associated with the establishment and ongoing maintenance of sponsored holders and their associated holdings in CHESS (the review). The review was targeted to relevant participants (nine) and was based on one or more of the following criteria:

- the number of sponsored holdings controlled;
- whether a participant has processed a novation of sponsorship agreements from one participant to another in the previous two year period; and
- whether a participant regularly accepts and processes participant transfer requests.

Overall, the sampled participants were found to have solid frameworks in place to ensure their compliance with the fundamental obligations. Generally, the participants considered the current rule framework around sponsorship arrangements - specifically the requirements for the establishment, novation and termination of a sponsorship agreement - to be clear, effective and adequate.

The review identified two opportunities for ASX to review efficiencies relating to:

- clarification of whether sponsorship agreements are at the client of Holder Identification Number (HIN) level; and
- notification to clients of mandatory changes to sponsorship agreements.

## CLARIFICATION OF WHETHER SPONSORSHIP AGREEMENTS ARE AT THE CLIENT OR HIN LEVEL

A participant must not establish or maintain a sponsored holding unless it has entered into a sponsorship agreement with each holder. For the majority of participants, this also means that for each sponsorship agreement there will be only one corresponding HIN. However, the review identified some participants relying on one sponsorship agreement for multiple HINs registered for the same client. Generally, this practice was evident in circumstances where existing HIN(s) sponsored at alternate participants are transferred to a new participant.

In many instances, the transfer of the whole HIN with the holdings is seen to be more efficient than completing a line by line transfer for each holding. Until the receiving participant amalgamates the holdings on one HIN and terminates any 'redundant' HINs there will be a time where there will be multiple HINs relying on the same sponsorship agreement.

It was also identified that the termination of redundant HINs was generally completed by participants without necessarily obtaining the authority of the sponsored holder. Participants felt it is unclear whether they are obliged to notify clients upon termination of a HIN as opposed to termination of a sponsorship agreement.

ASX proposes to clarify that the current framework:

- does not place any limitation on the number of HINs that can be applied to a single sponsorship agreement. This will allow participants to record multiple HINs on one sponsorship agreement subject to the registration details being identical for all such HINs; and
- does not place any obligation on a participant to notify a client of the termination of a HIN. Rather, the participant must notify a client when it is terminating the sponsorship agreement. ASX's position that the termination of the sole HIN linked to a sponsorship agreement would trigger the termination notification obligation.<sup>1</sup>

## **NOTIFICATION TO CLIENTS OF MANDATORY CHANGES TO SPONSORSHIP AGREEMENTS**

As members are aware, a participant can only control a sponsored holding if it has a sponsorship agreement in place with its client that complies with Section 7 (sponsorship provisions) of the ASX Settlement Operating Rules. Consequently, when changes are made to the sponsorship provisions there has been an expectation that all sponsored clients are notified.

Since the introduction of sponsorship, there have been very few changes to the sponsorship provisions and the last change was timed to coincide with participants' notification activities regarding changes to the Privacy Regulations.

During the review, some participants raised the issue of the cost of notifying sponsored holders of changes and this was particularly relevant to those participants with significant numbers of HINs with no holdings (inactive clients).

ASX proposes to issue guidance to participants which will outline the circumstances in which participants may not necessarily be required to notify inactive clients of changes to the sponsorship provisions in Section 7 of the ASX Settlement Operating Rules. Amongst other things, the guidance will include conditions requiring the participant to have robust controls in place that prevent any activity on the HIN until the sponsored client has been notified of the change to the sponsorship provisions.

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<sup>1</sup> CHES, however, sends a Cancellation of CHES Account letter (Sample W) to the holder when a HIN is cancelled, given ASX has no way of identifying how many HINs are linked to a sponsorship agreement.. The letter refers to ASX "has cancelled your registration in CHES".



# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 6C

<b>Topic</b>	<b>Update on ASX Consultation Process on Reducing Red Tape</b>
<b>Date of the Meeting</b>	4 March 2015
<b>Purpose of this paper</b>	The Business Committee will be provided with an update on the ASX consultation process on reducing red tape for participants.
<b>Action required</b>	To note the agenda paper.

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## OVERVIEW

In October 2014, ASX issued a public consultation paper [Reducing Red Tape – proposed amendments to ASX's admission and notification requirements](#), proposing changes to standardise and streamline its admission and notification requirements for the ASX and ASX 24 markets and the ASX Clear, ASX Clear (Futures) and ASX Settlement facilities that service those markets.

On 16 February 2015, ASX released a further consultation paper entitled "[Reducing Red Tape: Results of Consultation Process and Invitation to Comment on Additional Rule and Procedure Changes, Guidance Note 1 Admission as a Participant and New Participant Application Form](#)" summarising and responding to the submissions ASX received in relation to the consultation package released in October 2014.

The February 2015 consultation paper attaches the final form of the rule changes and ASX's proposed Guidance Note 9 Offshoring and Outsourcing. It also invites comments from participants on further proposed rule changes and the new draft Guidance Note 1 *Admission as a Participant* for each of the ASX Clear and ASX Settlement facilities. Submissions for this consultation paper close on **Friday 20 March 2015**.

## OUTCOMES FROM INITIAL CONSULTATION PROCESS

ASX received overwhelming support for the proposals set out in the *Reducing Red Tape* consultation paper and therefore ASX intends to press ahead with, and seek regulatory approval for, all of the substantive changes proposed in that paper. Subject to regulatory approval, it is intended that the Rule and Procedure changes will come into effect on **1 June 2015**.

As part of reviewing the consultation submissions and finalising its response, ASX has identified some additional Rule and Procedure changes to include in the *Reducing Red Tape* package that will help further reduce the compliance burden of participants. The proposed changes relevant to ASX Clear and ASX Settlement participants include:

- further changes to notification obligations to remove the need to provide notice to each facility, as well as formalise the ability for ASX Clear participants to provide ASX a copy of any corresponding notification they have given to ASIX regarding compliance with trust provisions;
- the removal of the requirement in ASX Settlement Operating Rule 7.1.10 for settlement participants to obtain ASX's consent to a bulk change of HINs; and
- admission changes for specialist settlement participants and product issuer settlement participants.

## OUTSOURCING OFFSHORING GUIDANCE NOTE

ASX received almost as much feedback on Guidance Note 9 as it did on the entire package of Rule and Procedure changes. ASX has taken on board a number of the comments made by the respondents.

In response to feedback received at the last Business Committee meeting in relation to the need for an adequate transitional period for compliance with the Guidance Note, ASX Compliance will allow existing participants a

**grace period of until 1 January 2016 for their existing offshoring and outsourcing arrangements** in order to provide them time to review, and possibly also update, them to align with the expectations in Guidance Note 9.

ASX Compliance expects that participants will have completed this exercise and will be in full compliance with Guidance Note 9 by 1 January 2016. Any new offshoring or outsourcing arrangements entered into on or after 1 June 2015 will be expected to comply with the expectations in Guidance Note 9.

### **NEW DRAFT GUIDANCE NOTE 1 *ADMISSION AS A PARTICIPANT***

ASX is consulting on drafts of Guidance Note 1 *Admission as a Participant* for each of ASX Clear and ASX Settlement facilities. These drafts incorporate and reflect the *Reducing Red Tape* Rule and Procedure amendments.

Committee members will be aware that participants have an ongoing obligation to continue to comply with applicable admission requirements. One key admission requirement in this regard is the obligation for an applicant to have “adequate resources and processes” to comply with its obligations as a participant under the operating rules for the facility in which it is seeking to become a participant. Guidance Note 1 sets out ASX expectations regarding “adequate resources and processes”. ASX is keen to hear from participants whether they have any comments in relation to Guidance Note 1 and, in particular, the section headed ‘Resources and processes’.

While all participants are expected to already have in place appropriate documented processes to comply with all of their key obligations as participants, ASX acknowledges that some participants may need time to review, and possibly also update, their key processes in order to align them with the expectations in Guidance Note 1. ASX is proposing to allow existing participants a grace period of until **1 January 2016** before they will be expected to have completed this exercise.

# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 7A

<b>Topic</b>	<b>Forward Work Program</b>
<b>Date of the Meeting</b>	4 March 2015
<b>Purpose of this paper</b>	To update the Business Committee on the forward work program for 2015.
<b>Action Required</b>	The Business Committee is invited to review completed items, and provide feedback on the future topics for discussion and the prioritisation.

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## OVERVIEW

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

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

The forward work program sets out work streams according to the following four major themes:

1. Capital efficiency and industry economics;
2. Participant structure flexibility and efficiency;
3. Service Innovation; and
4. Technology and Infrastructure enhancements.

## QUESTIONS FOR THE BUSINESS COMMITTEE

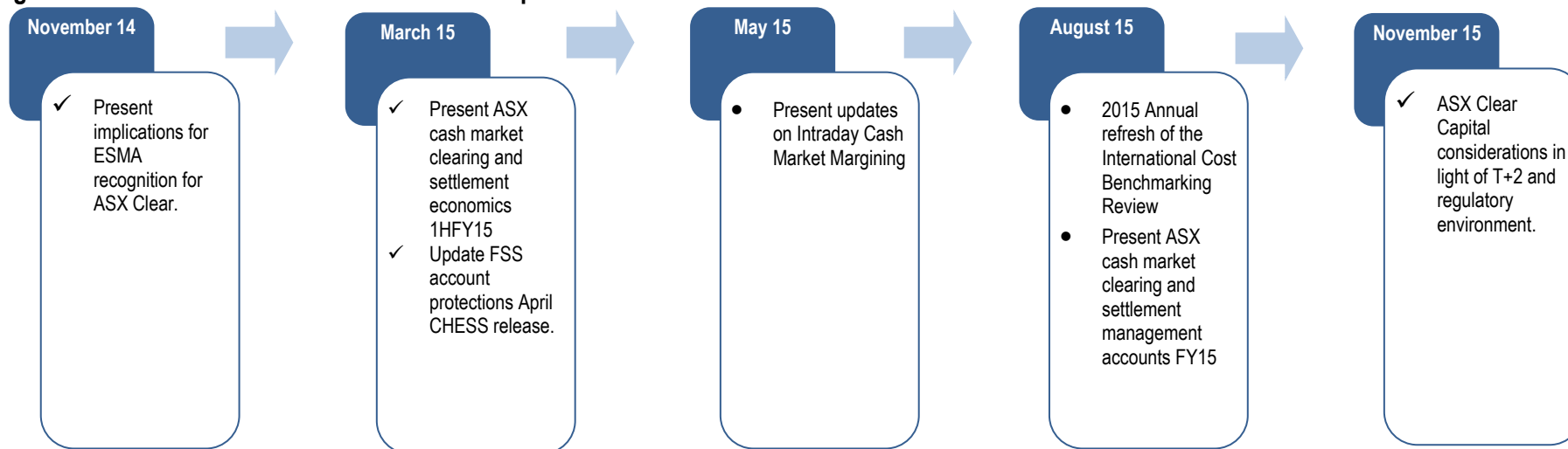
- Does the draft forward work program extending to November 2015 continue to reflect industry priorities?
- Are there additional topics that should be included in the forward work program?

## ATTACHMENTS

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

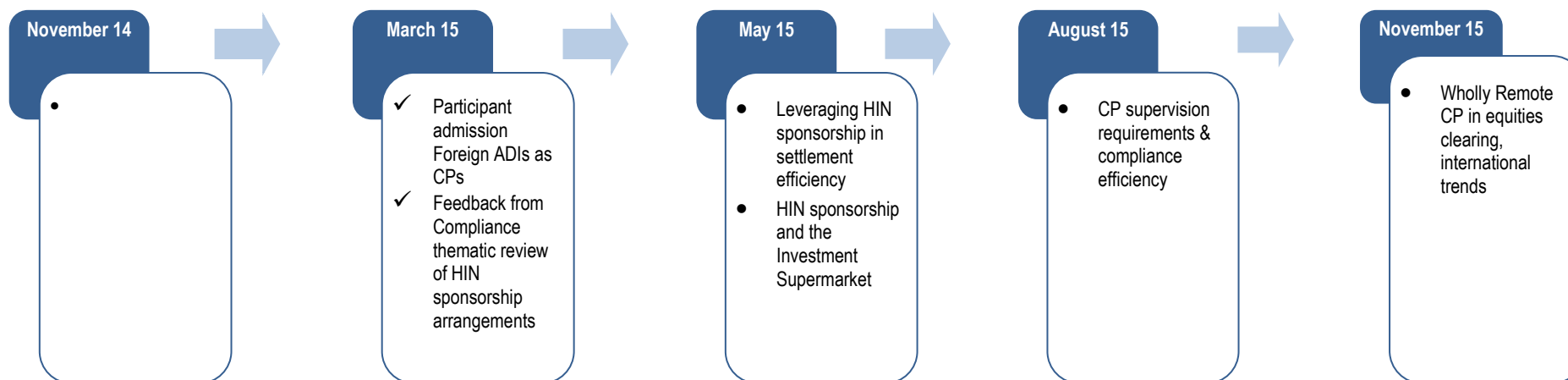
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>1. Capital Efficiency and industry economics</b>	To minimise the capital costs for ASX's customers whilst maintaining robust CCP capital support	a. ASX cash market clearing and settlement economics	ASX to publish management accounts in respect of the clearing and settlement of cash equities in Australia at the same time that ASX reports its half and full-year results. ASX will provide a detailed briefing at the Business Committee meeting following publication of results.
		b. International benchmarking of cash market clearing and settlement costs	ASX Clear and ASX Settlement will refresh and review annually the results of the June 2014 international price benchmarking report on the cost of post trade services.
		c. Capital and risk review, including margining and liquid capital requirements	ASX will provide a review of risk protections provided since the introduction of cash market margining and will review liquid capital requirements in this context.
		d. Regulatory requirements, including Financial Stability Standards	ASX will update the Committee on the ASX progress in meeting new Financial Stability Standards (FSS) relating to account segregation and portability, and liquidity risk.

**Timing for Business Committee Consideration of Topics**



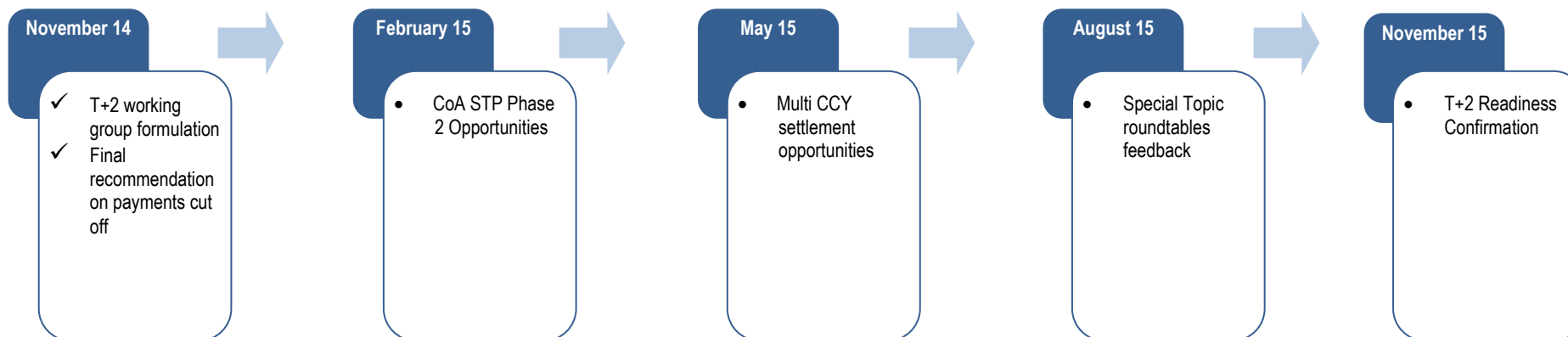
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>2. Participant Structure, Flexibility &amp; Efficiency</b>	To align ASX's participant access regime with its customers' evolving business models	a. Participant structures, admission requirements	ASX will continue to explore additional proposals on alternate clearing participant admission criteria including harmonisation and standardisation across ASX CCPs. ASX will seek feedback on potential benefits to industry of potential changes.
		b. Participant Structure variations	ASX will present a proposal for alternative participant operating structures, including the potential introduction of a principal to principal model or enhanced settlement participant models or HIN sponsorship arrangements. ASX will seek feedback on potential benefits to industry of potential changes in terms of capital costs, margin efficiencies, operating costs and transactional efficiency.
		c. Participant location requirements	ASX will provide an update on industry trends in terms of participant location in clearing and settlement and will seek feedback from the Committee on whether greater flexibility is required and could be supported under current legal and regulatory settings, and identify what domestic location requirements are necessary.
		d. Outsourcing structures	ASX will provide an update on industry trends in outsourcing arrangements and will seek feedback from the Committee on whether greater flexibility is required and could be supported under current risk, legal and regulatory regimes or whether formal requirements on outsourcing are necessary.

**Timing for Business Committee Consideration of Topics**



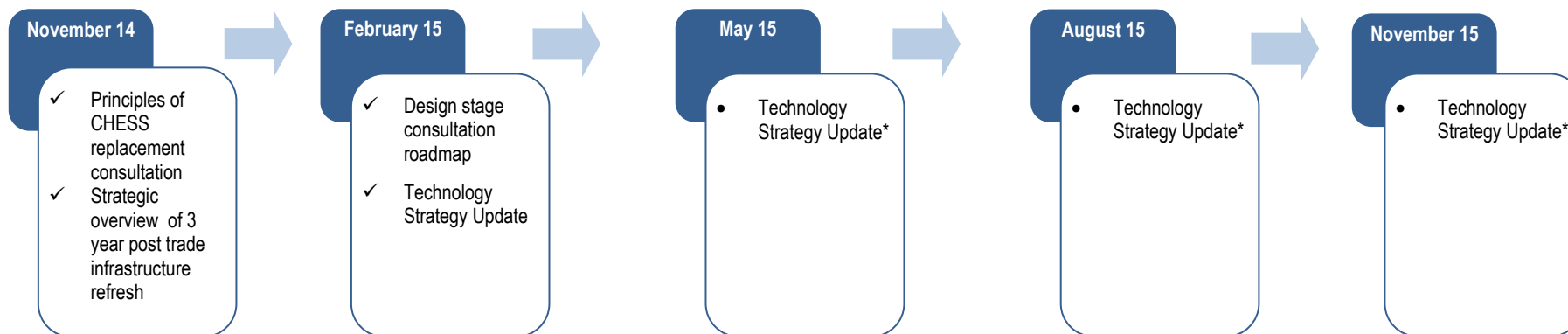
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>3. Service Innovation</b>	To deliver global best practice cash market clearing and settlement services	a. Corporate action straight through processing	The ASX will present opportunities for future and continued enhancements in streamlined processes for corporate actions in context of CHES replacement plans. Principles which will deliver a streamlined process for the announcement, data capture and delivery (using ISO 20022) of corporate action information.
		b. Australians timeline for T+2 settlement cycle & final batch cut-off conclusions	ASX will provide regular verbal updates on the industries move to meet T+2 settlements by 1Q2016. The Committee will explore final consideration for changes to batch cut off as well as industry engagement on ETF market issues, Bond Market and International Market alignment.
		c. Clearing and Settlement Hosted solutions	ASX will provide an update on industry trends towards clearing and settlement participant hosted solutions, and seek the Committee’s feedback on whether greater flexibility is required and could be supported under current risk, legal and regulatory settings.
		d. Non novated settlement efficiencies	ASX will host a number of operational roundtables to discuss settlement delivery efficiencies and innovations.
		e. Multi CCY considerations	ASX will review opportunities for multi-currency settlement in light of current offerings in RMB and future CHES replacement plans.

**Timing for Business Committee Consideration of Topics**



Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
4. Technology & Infrastructure Enhancement	To maintain and upgrade technology and infrastructure consistent with global standards	a. ASX infrastructure investment program	ASX will provide a roadmap of its three year infrastructure investment program and seek the Committee’s feedback on service innovation requirements and the market infrastructure considerations including clearing, risk, settlement and depository functionality.
		b. Timing and process for ASX feasibility study for CHES replacement	ASX will provide detailed plans for the equity clearing and settlement capabilities and CHES replacement feasibility study. A technical committee will be established in order engage industry participants and stakeholders, including vendors, on implementation considerations and requirements.

**Timing for Business Committee Consideration of Topics**



\* Decision on Cash Clearing and Settlement (CHES) expected in FY16 once there is clarity on clearing market structure.

## **BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 7B**

<b>Topic</b>	<b>Minutes from 27 November 2014 meeting</b>
<b>Date of the Meeting</b>	4 March 2015
<b>Purpose of this paper</b>	To provide Business Committee members with a copy of the minutes and Business Committee report to the Forum from the 27 November 2014 meeting.
<b>Action required</b>	To approve the minutes and report to the Forum from the 27 November 2014 meeting.

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Draft minutes and the draft report to the Forum from the 27 November 2014 Business Committee meeting were emailed to all members of the Business Committee on 16 December 2014 for comments by 16 January 2015.

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

The Business Committee minutes were signed by the Chair on 20 January 2015.

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

### **ATTACHMENTS**

Attachment A – Minutes from the 27 November 2014 Meeting

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





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

**Presentation on ETO Market Developments**

- 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 November CHES release, including TAS developments
- 3. Business Matters**
  - a. Introduction of T+2 settlement and a change to the batch settlement cut-off time
  - b. Clearing participant structures
  - c. Post-implementation update on corporate actions STP Phase I
  - d. Verbal update on the Technical Committee meeting on the roadmap for post-trade services infrastructure
- 4. Regulatory Updates**
  - a. ASX Clear recovery plans
  - b. ASX Clear and ESMA recognition
  - c. ASX Consultation Paper "Reducing red-tape – proposed amendments to ASX's admission and notification requirements"
- 5. Administration**
  - a. Operational improvements to the Code of Practice
  - b. Forward work program
  - c. Minutes from the 27 August 2014 meeting
  - d. Other Matters

**ATTENDEES**

<b>MEMBERS</b>		
<b>Company</b>	<b>Name</b>	<b>Job Title</b>
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
Bell Potter Securities	Mr Dean Surkitt (by telephone)	Managing Director Retail
Chi-X Australia	Mr Jamie Crank	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 Russell Deal	Chief Operating Officer
Goldman Sachs	Ms Yen Le	Head of Australia & New Zealand Settlements
HSBC	Mr Andrew Bastow	Head of Securities Services
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Morgans	Mr Brad Yates	Senior Manager, Operations
Morgan Stanley	Ms Rebecca Collins	Head of Securities Operations
Patersons Securities	Mr Sam Budiselik (by telephone)	Chief Operating Officer
UBS	Mr Conor Foley	Chief Operating Officer

<b>ASX Management</b>	
<b>Name</b>	<b>Job Title</b>
Ms Amanda Harkness (from Item 4a)	Group General Counsel and Company Secretary
Mr Tim Hogben	Group Executive, Operations
Mr Alan Bardwell	Chief Risk Officer
Ms Danielle Henderson	General Manager, Clearing Services
Mr Andrew White (until Item 4a)	General Manager, Settlement Services
Ms Janine Ryan (Item 4a 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 4a only)	Senior Advisor, Clearing Risk Policy
Mr Graham O'Brien (lunch presentation)	Manager, Equity Derivatives Sales
<b>ASX Compliance Management</b>	
<b>Name</b>	<b>Job Title</b>
Ms Fiona Hooymans (Item 4c only)	General Manager, Participants Compliance

**APOLOGIES**

<b>MEMBERS</b>		
<b>Company</b>	<b>Name</b>	<b>Job Title</b>
BBY Ltd	Mr Arun Mahraj	Chief Executive Officer
BNP Paribas	Mr Justin Christopher	Chief Operating Officer
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
Goldman Sachs	Mr Greg Hanlon	Head of Operations
J.P. Morgan	Mr Samuel Mann	Business Manager, Australia Equities

<b>MEMBERS</b>		
<b>Company</b>	<b>Name</b>	<b>Job Title</b>
Morgans	Mr Peter Chisholm	Manager Operations
Morgan Stanley	Mr Craig McGuire	Head of Operations
NSX	Mr Emlyn Scott	Chief Executive Officer
Pershing Securities	Mr Rob Forbes	Chief Operating Officer

Prior to the commencement of the meeting, Members were provided with a briefing from Mr Graham O'Brien, ASX's Manager of Equity Derivative Sales, based on a PowerPoint presentation titled 'ETO Market Developments'.

The Chair noted that whilst post-trade services for equity derivative products were outside the scope of the Code of Practice, it had been agreed at the August meeting that ASX would update the Committee regarding the ETO market and post-trade services for ETOs given the increasing number of topics which cross-over between cash equities and ETOs as a result of a shared clearing house. It was agreed that a copy of the slides be distributed to the Committee [**Agreed Action 1**].

The Chair formally opened the meeting at 12.30pm.

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, including those participating by phone.

The Chair updated the Committee on the Forum meeting held on 1 October 2014, including that the Forum:

- noted and discussed the roadmap for the development of cash market post-trade services infrastructure, including the replacement of CHESSE;
- discussed the proposed operational improvements to the Code of Practice and endorsed increasing the number of Business Committee meetings to four meetings per year, decreasing the number of Forum meetings to two meetings per year, and having the Technical Committee report to the Business Committee. The Forum requested that the Committee be consulted on the proposal to reduce the frequency of commissioning updated international cost benchmarking on cash market post-trade services, which will be discussed further under agenda item 5a; and
- noted the FY14 cash market clearing and settlement management accounts and the cash market clearing and settlement operational performance report for the June and September 2014 quarters.

## **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 June 2014 and September 2014.

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

- CHES and TAS system availability was 100% for both quarters. There was an 11% increase in trade volumes for the September quarter;
- netting efficiency averaged 99.8% on volume and 59% on value across both quarters;
- average settlement failure rates were consistent with previous periods at 0.3%; and
- Two Chi-X trades submitted through the TAS had been incorrectly rejected in the September 2014 quarter. The trades were rejected as a result of the CHES sub-register for the security remaining suspended after the security was reinstated to trading. A technical fix for this issue had been implemented in the November 2014 CHES release.

ASX's Group Executive, Operations also informed the Committee that the recent listing of Medibank Private Limited (MPL) had taken place without issue, including that:

- approximately 48 million MPL shares traded in the opening auction. There were approximately 585 million MPL securities traded on ASX and Chi-X during the first day of trading;
- 28 November 2014 is a watch point for ASX Settlement as institutional settlement of over \$2.3 billion would occur on that day. Total settlement would be approximately three times the average net daily settlement that occurs in CHES; and
- 10 December 2014 is also watch point for ASX Settlement as settlement of deferred settlement trading from 25 November to 5 December securities would occur in the CHES system that day.

The Chair invited questions or comments on the agenda paper. No comments or questions were raised by Members.

#### **b. Verbal Update on the November CHES release, including TAS developments**

ASX's General Manager of Clearing Services provided a verbal update about the status of upcoming CHES releases, including that:

- the November 2014 CHES release was in production. It included 3 minor modifications to the TAS to provide equivalent validation conditions to those for the ASX market; and
- the next CHES release was scheduled for May 2015. It would include changes related to ASX's compliance with FSS requirements for account segregation.

### **AGENDA ITEM 3: BUSINESS MATTERS**

#### **a. Introduction of T+2 Settlement and a change to the batch settlement cut-off time**

The Chair introduced the agenda item noting that ASX had worked closely with the Australian Payments Clearing Association (APCA), payment providers and participants since the last Committee meeting to reach an industry consensus on the batch settlement cut-off time.

ASX's General Manager of Clearing Services informed the Committee that, following consultation with relevant stakeholders and taking account of the impact of the changes on pre-settlement preparation time for participants and the implications for payment providers, default management processes and afternoon post-settlement activities, ASX was proposing to:

- extend the daily batch settlement cut-off time from 10.30am to 11.30am;
- maintain the option for a 30 minute extension to the batch cut-off;
- reduce the payment authorisation period from 90 to 60 minutes;

- reduce the ASX default management window from 2 hours to 90 minutes; and
- maintain final payment settlement obligations at 2.30pm.

ASX's Senior Manager of Clearing Services outlined the consultation process and some of the data analysis which supported the proposed changes, including:

- that ASX participated in two workshops with the CHES Payment Provider Working Group of APCA and undertook bilateral consultation meetings with a number of participants, and the RBA. APCA and its CHES Payment Provider Working Group (comprising 11 payment providers) endorsed the proposed changes;
- ASX's analysis of the past 12 months of settlement completion times supported the proposed changes. The average payment approval time was 14 minutes. There were four instances of approvals taking longer than the proposed approval window of 60 minutes. The average settlement completion time was 11.23am and the latest was at 1.14pm, well before the settlement payment deadline of 2.30pm; and
- ASX had not identified anything in the analysis of the past 12 months' data which would indicate an issue with the proposed changes.

The Chair invited Committee feedback on the proposed changes.

A Member inquired whether the change to the batch settlement cut-off time needed to coincide with implementation of T+2. The Member commented that there could be benefits to Members by implementing the 11.30am batch settlement cut-off time earlier, particularly for those participants supported by staff in their Asian offices. Another Member queried whether there was heightened risk from implementing the change to the batch cut-off time and T+2 at the same time.

The Chair noted that ASX would prefer to implement the change to the batch cut-off time and T+2 at the same time as this is what has been agreed with APCA and its Working Group. It was also noted that ASX's view was that implementing the two changes at the same time did not pose additional risk for the industry.

ASX's Group Executive, Operations informed the Committee that the payment providers had been heavily involved in developing the proposed changes to the batch settlement cut-off time and that any change to the proposed implementation timeframe would need to be discussed with them. It was also noted that the low settlement fail rates (generally around 0.3%) demonstrated that the current timing of the batch cut-off under a T+3 settlement cycle was not significantly impacting settlement efficiency. The rationale for extending the timing of the batch cut-off to 11.30am was to support the introduction of a shorter settlement cycle.

A Member noted that that his organisation was happy with either the timing of the batch cut-off to be changed at the same time as T+2 is implemented under the current proposal or the introduction of the later batch cut-off ahead of the introduction of T+2. A number of Members agreed that there might be a benefit in investigating the possibility of implementing a later batch cut-off ahead of the introduction of T+2.

The Committee endorsed:

- the proposal to change the batch settlement cut-off time from 10.30am to 11.30am; and
- the implementation of T+2 in March 2016.

The Chair agreed that ASX would examine the merit of implementing the later batch cut-off in advance of the implementation of T+2, and would revert back to the Committee at the next meeting. **[Agreed Action 2]**

ASX's Senior Manager of Clearing Services informed the Committee that ASX would shortly announce to the market the first meeting of the T+2 Market Implementation Group (MIG), which

would meet on 11 December 2014. The MIG would allow for wider industry and stakeholder consultation on T+2 implementation. MIG meetings would be broadly accessible via webinar and be recorded.

**b. Clearing Participant Structures – Considerations for Principal to Principal Clearing**

ASX's General Manager of Clearing Services updated the Committee on a workshop held on 14 October 2014 and a number of bilateral meetings with members of the working group, which had been established after the August Committee meeting, to discuss the potential operational mechanics of principal to principal (P2P) clearing arrangements. ASX would continue these discussions and hold another workshop in December 2014 to confirm the operational assumptions of the proposed model. Following this, the proposed model would provide the basis for a 'regulatory look through' analysis. Joint ASX and industry engagement with ASIC would commence in the second quarter of calendar year 2015.

**c. Corporate Actions STP Phase I – Post Implementation Update**

The Chair noted the article about the corporate actions STP Phase I initiative in the November Listed @ASX magazine, and referred to the discussion about corporate actions STP Phase 2 in previous meetings.

ASX's General Manager of Settlement Services updated the Committee on the implementation of corporate actions STP Phase I, including:

- a number of issuers had early adopted. Feedback was that issuers were happy using the STP service and with the time savings. Corporate actions STP Phase I would become mandatory for all listed entities on Monday, 23 March 2015;
- ASX was continuing to work through a number of minor post go-live items. These included actions postponed to post-go-live and responses to suggestions from customers following their implementation;
- a number of ASX market data customers were trialling the corporate actions notification service; and
- STP Phase I had automated the 4 largest corporate actions, representing approximately 66% of all of corporate action volumes.

ASX's General Manager of Settlement Services advised that following the receipt of feedback from the Committee at the previous two meetings about the potential for a second phase of corporate actions STP, ASX had undertaken discussions with a number of customers. These discussions had revealed a divergence of views regarding a phase 2 solution with some customers calling for an end-to-end STP solution for five of the remaining ten corporate action types and others encouraging ASX to provide an STP solution for the feedback loop for the corporate actions delivered in Phase I.

The Chair invited the Committee to provide feedback, which was mixed:

- several Members commented that there could be significant efficiency benefits to be realised by providing an STP solution for the feedback loop for the corporate actions delivered in Phase I. This currently involved significant manual and paper-based processing. One Member identified these processes as one of their largest areas of operational risk; and
- another Member commented that it would be more beneficial if ASX focused on extending STP to the next five corporate actions types.

The Chair noted that ASX would consider which developments in this area should form part of the CHES replacement project. ASX's General Manager of Settlement Operations advised that ASX would continue bilateral discussions with customers and report back to the March 2015 Committee meeting with a proposal for the second phase of this initiative. **[Action Item 3]**

**d. Update on Technical Committee meeting on the roadmap for post-trade services infrastructure**

ASX's Group Executive, Operations updated the Committee on the Technical Committee meeting held on 24 September 2014, including:

- the CHES replacement project requires a significant degree of collaboration from both the Business Committee and the Technical Committee to ensure an appropriate balance of input on business requirements and technology inputs. The Technical Committee would focus on technical issues and report to, and work collaboratively with, the Committee to help build a system which met business requirements;
- the Technical Committee was broadly supportive that the new infrastructure should be based on ISO 20022 standard messaging and have multi-currency and multi asset class capability. DvP model 3 is the preferred model for settlement although there was some discussion of DvP model 1 and possible hybrids between the two models, which would be canvassed as part of the broader consultation process to be undertaken next year; and
- the Technical Committee agreed that the new infrastructure should not be locked into legacy ASX architectural systems and it should have open access APIs to provide for better external access. ASX confirmed that the system that replaces CHES will be designed to connect to a new 'enterprise service bus' and would not be designed to directly integrate with existing legacy systems.

ASX's Group Executive, Operations outlined that the CHES releases on the roadmap for cash market post-trade infrastructure were discussed by the Technical Committee. This included that there would be limited CHES releases following the H2 2015 CHES release.

ASX's Group Executive, Operations described the current timetable for customer engagement regarding CHES replacement, including that:

- by the end of 2014, ASX would launch a web page to communicate with participants on the CHES replacement project. Initially, the web page would provide updates on the project, high level information on the principles that should underpin the system that replaces CHES and invite participants to engage in bilateral discussions;
- ASX would commence a broad-based public consultation on CHES replacement in the second quarter of 2015. The consultation process would likely be completed by September 2015, after which ASX would be in a position to finalise the business requirements and prepare the technical solution design;
- towards the end of 2015, ASX expects to be in a position to select the vendor and commence the system build. The new system build was expected to take 12 months; and
- at this stage, ASX did not expect significant engagement with participants and customers following the consultation process until the first half of calendar year 2017, when they would be required to undertake system testing.

A Member inquired whether it would be possible for ASX to provide the market with more detail on the technical specifications for the system that replaces CHES ahead of the timetable for customer engagement outlined. It was noted that while the full technical specification was not required at this stage, it would be useful for the technology teams within participants to have more detail in relation to the type of infrastructure and the type of messaging being considered to give them an opportunity to consider the potential impact on their internal resourcing needs.

ASX's Group Executive, Operations indicated that the Technical Committee would be involved in considering the system specifications and mapping the current 400 plus CHES messages to ISO 20022 messages. ASX's Group Executive, Operations also noted that it would be difficult to determine the system specifications until the business requirements had been finalised.

In response to Member questions, ASX's Group Executive, Operations confirmed that ASX was talking to other major exchanges who had implemented similar system replacements.

The Chair agreed that ASX would engage with Members and participants throughout the process, particularly with a view to identifying business processes that can be removed or improved to increase efficiency and remove costs for participants. The Chair noted that ASX understood the importance of customer engagement and the need for a highly consultative process in undertaking this project. More information about what is being considered would be provided to the March 2015 Committee meeting. [Action Item 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 development of ASX Clear's proposed recovery plans based on a PowerPoint presentation, including that:

- ASX had issued a consultation paper on recovery tool options for uncovered loss allocation and replenishment for clearing participants in October. The paper did not address non-default losses or ASX replenishment of the default fund;
- CPMI-IOSCO released its final guidance on central counterparty recovery during the consultation process in mid-October. The guidance contained no substantive changes and did not change the nature of the proposals in the ASX consultation paper;
- ASX had organised an industry forum, legal counsel briefings and bilateral discussions with participants as part of its consultation. Written responses had been received from 13 organisations and more written submissions were expected.

ASX's General Manager of Legal outlined to the Committee the straw man proposal for how ASX Clear proposed to deal with losses exceeding its default fund, and discussed the key features of each recovery tool, including emergency assessments, partial termination, complete termination and replenishment.

A Member queried the size of the current default fund and asked whether ASX's contribution of paid in capital to the default fund was an efficient use of capital, or whether this capital could be contributed by participants at a lower cost. The Chair noted that the issue of the structure of the default fund had been discussed in previous meetings and had been identified in the two recent cost benchmarking reports. The challenge in achieving the appropriate structure of the default fund related to the fact that the cost of capital differed from client to client depending on the shape of their businesses and return on capital. As such, participant contributions to the paid-in capital for the default fund was economically rational for some clients, but not others. ASX was open to a broader discussion on the structure of the default fund, including as part of a discussion about whether the Code of Practice is extended and possible fee changes.

A Member queried how a complete termination of contracts would operate, including whether securities would change hands and how such an event could be managed with their clients. ASX's General Manager of Legal outlined that a complete termination under the proposal would mean that there would not be physical settlement of the securities (i.e. securities would not change hands) and the transaction would be cash settled on a mark to market basis (i.e. a compensation payment would be made based on the price that the securities traded at and the current market price at the time the contract is terminated).

ASX's General Counsel and Company Secretary noted the advantages of designing regulatory framework to deal with these situations now and not when you are in the midst of a default management and insolvency situation. The Chair welcomed and encouraged further feedback on the complete termination proposal from Members as part of the ongoing consultation process.

ASX's General Manager of Legal outlined the key themes of the responses received to date in the consultation process, including:



- general recognition for the need to put in place new recovery tools under the new regulatory requirements;
- positive feedback for the proposal to cap participant liability and measures that will enable participants to be able to calculate their exposures upfront under the assessment regime;
- positive feedback for the proposal to allow participants to resign from the clearing house following a default management process and before commencement of the replenishment of the default fund;
- mixed views about what the capital and cost implications of the various recovery tools may be, how the partial termination of contracts would operate, particularly in relation to pricing and the involvement of external committees, and whether emergency assessments should be called and partial terminations undertaken when the situation will most likely end up in a complete termination. Transparency and the provision of information throughout a recovery situation was considered paramount so that customers could manage their exposures; and
- there was mixed feedback regarding the proposal for the replenishment of the default fund, with some participants resistant to the idea that they should contribute capital through this process and others taking the view that there should be participant contributions to the current default fund.

ASX's General Manager of Legal informed the Committee that ASX expected to publish a consultation paper on the recovery rules framework in late Q1 2015 and lodge rules for regulatory approval in mid-2015. Participants have the opportunity to provide further input into the process prior to the formulation of a final proposal and were encouraged to continue to engage on these issues. In response to a Member question, it was confirmed that non-confidential responses would be published. ASX's General Manager of Legal advised Members that the RBA would also be conducting bilateral discussions with participants on these issues. Members could contact RBA directly or ASX would pass on requests for meetings.

One Member noted that additional work was required in relation to the proposal for the replenishment of the default fund as a move to paid-in capital from participants into the default fund should have implications for the cash market clearing fee. The Chair acknowledged that the economics of cash market clearing would be subject to change if the structure of the default fund was fundamentally altered.

#### **b. ASX Clear and ESMA Recognition**

The Chair advised Members that ASX had announced on 12 November 2014 its intention to seek ESMA recognition for ASX Clear as a Qualifying Central Counterparty (QCCP) under EMIR. ASX Clear would be required to meet the 'cover 2' capital and liquidity default standard to obtain QCCP status.

ASX's Chief Risk Officer informed the Committee about the application to ESMA, including:

- the European Commission's determination that the Australian regulatory regime for CCPs was equivalent to Europe satisfied one of the key pre-conditions for ESMA to consider ASX Clear's application for QCCP status;
- one consequence of ASX Clear moving to a 'cover 2' standard was that ASX Clear would boost its available liquid resources from \$300 million to \$400 million to meet the 'cover 2' liquidity standard. ASX Clear analysis indicated no changes were required to the default fund to meet the 'cover 2' capital standard;
- another consequence of ASX Clear moving to a 'cover 2' standard was that it would need to reduce its existing maximum stress test exposure limits (STELS) for any clearing participant from \$250 million to \$125 million. ASX Clear had modelled the impact if this change had applied in 2014. There would have been an increase of additional initial margin calls from 10

to 38 impacting seven participants. One participant would have been responsible for 23 of the additional 28 additional calls. ASX would meet with participants bilaterally to discuss the impact of the changes; and

- ASX Clear was in the process of establishing a consultative risk committee similar to that which had been established for ASX Clear Futures.

In response to a question, the Chief Risk Officer confirmed that the impact of reducing the STEL was unlikely to significantly impact most participants since most operated with significant capacity below the STEL limit.

The Chief Risk Officer advised that the timing of when ESMA would issue a final determination in relation to ASX Clear's application for recognition as a QCCP was not clear. However, ESMA is required to complete the process by mid-2015. The General Counsel and Company Secretary noted that ASX Clear had received transitional relief pending formal recognition.

**c. ASX Consultation paper "Reducing red tape – proposed amendments to ASX's admission and notification requirements"**

ASX Compliance's General Manager of Participants Compliance provided an update regarding the ASX consultation paper "Reducing red tape – proposed amendments to ASX's admission and notification requirements", including:

- the consultation paper sets out proposals to streamline the admission and notification rules for clearing and settlement facilities, which are expected to deliver significant efficiencies, enhance flexibility, provide business opportunities for third party clearers and reduce ongoing compliance costs for participants;
- the amendments are relevant for both new applicants and existing participants who are looking to restructure their businesses. ASX had spent significant time assisting participants restructure to realise improved efficiencies and these proposals were expected to deliver improvements to these processes;
- a number of Members had provided comments on a draft of the offshoring and outsourcing guidance note ahead of the formal consultation process. Some had suggested that the guidance note should be more restrictive on what functions could be outsourced or offshored. ASX Compliance had taken a balanced approach such that participants would have flexibility to manage their business model whilst mitigating the risk to the facilities by setting out the expectation that the Board of the participant, or delegated senior management, should approve the entry, variation or termination of material offshoring or outsourcing arrangements; and
- Written submissions in response to the consultation paper were due by 5 December 2014. ASX Compliance was expecting the new offshoring and outsourcing guidance note to take effect at the same time as the rule changes set out in the consultation paper. It was proposed that participants would be given a two month notice period for the final guidance and rules changes prior to them becoming effective. ASX would continue bilateral discussions with participants regarding implementation of the new requirements.

ASX Compliance's General Manager of Participants also noted that a similar consultation would be undertaken for Austraclear in the new year. It was agreed that a draft of guidance note 1 for admission requirements would be circulated to Committee Members for comments ahead of the commencement of a public consultation [**Agreed Action 5**].

Members commented that whilst the proposed outsourcing and offshoring guidance provided better clarity of ASX's expectations, they involved significant up-front due diligence work for participants and may involve changes to some of the outsourcing and offshoring arrangements currently in place. Members were of the view that a two month transition period was not long enough to implement the necessary changes to their outsourcing and offshoring arrangements once the final guidance had been issued. A member asked whether ASX Compliance would

consider implementing the final guidance earlier and providing a longer period of transitional no-action relief to allow participants to implement the necessary changes. ASX agreed to consider the request for a longer transition period for the guidance once it had been finalised [**Agreed Action 6**].

## **AGENDA ITEM 6: ADMINISTRATION**

### **a. Operational improvements to the Code of Practice**

The Chair noted the proposed operational improvements to the Code of Practice set out in the agenda paper.

The Chair elaborated on the Forum's request that the Committee be consulted on the proposal to Change the requirement to produce an independent benchmarking report from annually to every two years. There was already extensive pricing information available to the market. ASX Clear and ASX Settlement would report to the Forum each year that a benchmarking report is not produced on any material changes to their tariff structures and fee levels.

The Committee was comfortable and broadly supportive of the proposed change in frequency in commissioning the international cost benchmarking.

A Member questioned whether the proposed change to the group of persons to be consulted as part of the annual external review of the Code of Practice was appropriate. A couple of Members were of the view that the group consulted as part of the external review should be broader than the Forum. The General Counsel and Company Secretary noted that further consideration would be given to this issue. The proposed operational improvements to the Code of Practice would be published and ASX would consider feedback from the consultation process.

### **b. Forward Work Program**

ASX's General Manager of Clearing noted the proposed forward work program for the Committee set out in the agenda papers.

The Chair invited Members to comment on the forward work program. No comments were provided.

### **c. Minutes from the 27 August 2014 meeting**

The Chair noted the minutes from the 27 August 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 4 March 2015.

As there was no further business discussed, the meeting closed at 2.10pm.

Signed as a correct record of the meeting.



Chairman

20 / 1 / 2015

Date



## **BUSINESS COMMITTEE REPORT TO THE FORUM**

From the 27 November 2014 Business Committee meeting

At its 27 November 2014 meeting, the Business Committee was updated on progress in analysing how principal to principal clearing arrangements would work operationally and the progress made in consulting on the options for extending the batch settlement cut-off time to support the implementation of a T+2 settlement cycle for the cash market. The Business Committee was invited to provide feedback in relation to a proposal to change the timing of the daily batch settlement cut-off. The Business Committee was provided regulatory updates on ASX Clear's application for ESMA recognition, ASX Clear's consultation on recovery plans and ASX Compliance's consultation on reducing red tape and proposed guidance note on outsourcing and offshoring arrangements.

### **Key Recommendations**

The Business Committee recommended that:

- the batch settlement cut-off time be changed from 10.30am to 11.30am;
- March 2016 be targeted for the implementation of T+2; and
- a longer period of transition be provided to participants following the release of the final outsourcing and offshoring guidance note.

### **Key Issues Discussed**

- The recent consultation undertaken with the Australian Payments Clearing Association (APCA), payment providers and participants to inform a proposal to:
  - extend the daily batch settlement cut-off time from 10.30am to 11.30am;
  - maintain the option for a 30 minute extension to the batch cut-off;
  - reduce the payment authorisation period from 90 to 60 minutes;
  - reduce the ASX default management window from 2 hours to 90 minutes; and
  - maintain final payment settlement obligation at 2.30pm.
- ASX Clear's decision to proceed with an application for ESMA recognition as a third country central counterparty under the European regulatory framework (EMIR) and the requirement for ASX Clear to meet the 'cover 2' capital and liquidity standards to obtain EU recognition. To meet the 'cover 2' liquidity standard, ASX Clear would need to increase its available liquid resources from \$300 million to \$400 million. ASX Clear analysis indicated no changes were required to the default fund to meet the 'cover 2' capital standard.
- ASX Clear's proposals for managing losses exceeding its default fund and the key features of each recovery tool, including emergency assessments, partial termination, complete termination and replenishment, and the importance of industry engagement in the consultation process on ASX Clear's recovery plans.

## **Agreed Actions**

1. ASX to circulate the presentation on 'ETO Market Developments' following the meeting.
2. ASX to examine the merit of implementing the proposed later batch settlement cut-off time in advance of the implementation of T+2 for the cash market, and revert back to the Committee at the next meeting.
3. ASX to undertake further bilateral consultation with customers regarding the scope and nature of a potential corporate actions STP phase 2, and revert back to the Committee at the next meeting with a proposal for the second phase of this initiative.
4. ASX to provide the Committee with more information in relation to what is being considered for the project to replace CHESSE at the next meeting.
5. ASX to circulate a draft of the proposed guidance note 1 for admission requirements to the Committee ahead of the commencement of a public consultation process.
6. ASX to consider providing a longer transition period for the outsourcing and offshoring guidance note once it had been finalised.