



MINUTES OF THE BUSINESS COMMITTEE  
WEDNESDAY, 27 MAY 2015  
ASX LIMITED  
LEVEL 1, 20 BRIDGE STREET SYDNEY

- 1. Introduction**
- 2. Service Performance**
- 3. Business Matters**
  - a. Principal-to-principal clearing arrangements
  - b. Corporate actions STP
  - c. Update on T+2 implementation
  - d. FATCA & Common Reporting Standards
  - e. CHES Release 9
- 4. Regulatory Updates**
  - a. ESMA Recognition
  - b. Risk Systems Renewal Process
- 5. Administration**
  - a. Business Committee membership
  - b. Forward work program
  - c. Minutes from the 4 March 2015 meeting
  - d. Other Matters

## ATTENDEES

MEMBERS		
Company	Name	Job Title
ABN AMRO Clearing	Mr Sean Lawrence	Managing Director
ASX	Mr Peter Hiom	Business Committee Chair, Deputy CEO, ASX
Bank of America Merrill Lynch	Mr Anatoly Kirievsky	Head of Compliance
Bell Potter Securities	Mr Dean Surkitt (By telephone)	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
Deutsche Bank AG	Mr Russell Deal	Chief Operating Officer
Goldman Sachs	Mr Jeremy Follett	Executive Director Operations
J.P. Morgan	Mr Suneet Jain	Sales Business Manager, Markets & Investor Services
Macquarie Group	Mr Cameron Ritchie	Chief Operating Officer
Morgan Stanley	Mr Craig McGuire	Head of Operations
Morgans	Ms Sue Gye	Manager Operations
NSX	Mr Emlyn Scott	Chief Executive Officer
Patersons Securities	Mr Sam Budiselik	Chief Operating Officer
Patersons Securities	Ms Jane Irwin	Head of Operations
UBS	Mr Conor Foley	Chief Operating Officer

ASX Management	
Name	Job Title
Mr Tim Hogben	Group Executive, Operations
Ms Danielle Henderson	General Manager, Clearing Services
Mr Marcin Firek	General Manager, Company Secretariat
Mr Daniel Moran	Deputy General Counsel Corporate
Mr Andrew White	General Manager, Settlement Services (Item 3B)
Mr Rodd Kingham	Senior Manager, Clearing Services (Item 3C)
Ms Janine Ryan	General Manager, Legal (Item 3D)
Mr Chan Arambewela	Product Manager (Item 3D & 3E)
Mr Brendan Luscombe	General Manager, Clearing Risk Management (Item 4B)

## APOLOGIES

MEMBERS		
Company	Name	Job Title
APX	Mr David Lawrence	Chief Operating Officer & Company Secretary
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
HSBC	Mr Andrew Bastow	Head of Securities Services
J.P. Morgan	Mr Samuel Mann	Business Manager, Australia Equities
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Pershing Securities	Mr Rob Forbes	Chief Executive Officer
ASX Management		
Company	Name	Job Title
ASX	Ms Amanda Harkness	Group General Counsel & Company Secretary

The Chair formally opened the meeting at 12.10pm. Attendance for part of the meeting is noted in the attendee section on the preceding page.

## **AGENDA ITEM 1: INTRODUCTION**

The Chair welcomed Committee Members, including those participating by phone.

The Chair welcomed Sean Lawrence who was attending for the first time representing ABN AMRO as well as alternate representatives Cameron Ritchie from Macquarie Bank and Jane Irwin from Patersons Securities.

## **AGENDA ITEM 2: SERVICE PERFORMANCE**

The Committee noted the report on the operational performance of cash market clearing and settlement services set out in the agenda paper, including key clearing and settlement metrics for the quarters ended December 2014 and March 2015.

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

- CHES and TAS system availability was 100% for both quarters.
- Total trades accepted were down about 2% and valued cleared up about 7% in the March quarter.
- There were no trades rejected through the TAS and a small number of trades rejected through ASX Trade, most of which related to the use of an invalid basis of quote.
- Netting efficiency volume and value were steady across both quarters.
- Average settlement failure rates were consistent with previous quarters at about 0.24%.
- Average cash market margin held was \$150 million. There were slight delays by a couple of participants in meeting the 10.30am cut-off time, as a consequence of operational issues with entering payments. Referrals were subsequently made to ASX Compliance.
- mFund settlement transactions and funds under management increased in the March quarter. This was a good improvement in mFund business, with 23 fund managers committed to providing 87 funds, up from about 75 funds in the December quarter.

ASX's Group Executive, Operations also informed the Committee that:

- There were no specific issues with ASX infrastructure during the March quarter. One issue with RBA SWIFT message dissemination in February did not impact on equity settlement but provided some learnings for CHES replacement design, particularly in relation to the technical support for critical messaging protocols.
- ASX has established an external advisory panel of industry representatives to consult in relation to decisions made by ASX in the event of significant technology and operational issues, such as an outage on one of the trading platforms or in data dissemination, so that ASX can better understand the impact on participants and take this into account when making decisions.

The Chair noted that there had been an issue with the implementation of the new client segregation enhancements and asked if any Members wished to discuss that. No Members commented. ASX's Group Executive, Operations explained there was an issue related to the association of particular HINs with payment facilities, which had resulted in a delay to start of settlement until 11am on the first settlement day that the enhancements were effective. The issue was resolved on that day and the client segregation enhancements were now working as expected.

The Chair invited any other questions on the report. A Member commented on the Mirabella issue, noting that the four main action items coming out of that issue had been resolved. ASX's Group Executive, Operations provided a brief overview of that issue and outlined the actions that had

been taken. These included improvements to communications about capital restructures to the market and to clients. The Group Executive, Operations noted that related operating rule changes had become effective earlier that week.

There were no other questions or comments from Members.

## **AGENDA ITEM 5: BUSINESS MATTERS**

### **a. Principal-to-principal clearing arrangements**

ASX's General Manager, Clearing Services updated the Committee on the work of the working group examining principal to principal clearing arrangements (P2P), noting that:

- Since the last Business Committee meeting, ASX had workshopped the high level P2P model with the legal working group, in order to develop responses to regulatory issues raised by ASIC.
- The development of these responses required input from volunteer participant representatives, including those with wholesale and retail client expertise. While considerable work had been done, there were still questions requiring input, particularly from volunteers with retail client knowledge. Without this input of, it would be difficult to take the regulatory analysis forward.

The General Manager, Clearing Services asked the Committee for input on obtaining volunteers for those unresolved questions, and more generally on the level of priority of this initiative for Members, in view of the work that would be involved in completing the regulatory analysis and then engaging on those issues with ASIC.

A Member commented positively about the initiative as structurally progressive for the industry, and raised the possibility of engaging with ASIC to develop a better approach in relation to retail client protection.

There were no further comments from Members. The General Manager, Clearing Services took it as an action item to follow up over the next month with firms who had expressed interest in volunteering, with a view to identifying by the end of June whether the necessary support had been achieved, or whether this initiative should be de-prioritised. This would be reported to the Committee in August. [**Agreed action 1**]

### **b. Corporate actions STP**

ASX's General Manager, Settlement Services updated the Committee on implementation of Phase 1 of the Corporate Actions STP (straight-through processing) project. The mandatory implementation date for issuers had been extended from the end of March until the end of June. This allowed for some changes to the way that data is entered by issuers and received by market data customers, and also for the provision of a training environment.

The General Manager, Settlement Services provided an overview of the lessons learned from Phase 1:

- Clearly communicating interdependencies on other initiatives (noting that, while Phase 1 was dependent on ASX's refresh of its CORE database, that dependency was not present for Phase 2).
- Bringing stakeholder groups together regularly to understand their different perspectives and requirements and ensure that these are communicated between them.
- The benefits that could be gained from removing the corporate events from the operating rules and publishing them in a separate document so that iterative changes could be made without going through a formal rule amendment process (noting that this would require regulatory approval).

The General Manager, Settlement Services noted that further detailed planning work had been done on Phase 2, and that it was now thought that this could be delivered in around 12 (rather than 18) months. Taking into account industry commitments on other initiatives (particularly T+2 and FATCA reporting), it was thought that a sensible starting point would be around July 2016.

Members were invited by the Chair to comment on the proposed timing.

A Member commented that previous timetables had CHES replacement following Phase 2 of STP and asked if this meant that the timing for CHES replacement was pushed out. The Chair confirmed that there was no plan to decelerate CHES replacement, and that ASX intended to come back to the Committee in the fourth quarter of this year with a detailed roadmap and engagement to ensure that CHES replacement meets the needs of the market and, in particular, reduces the costs of operation for market users.

The Chair noted that ASX had recently presented to participant organisations on the trading platform replacements scheduled through to November 2016, and that it understood the resource demands that this placed on customers. The timeframes, while slower than some would like, recognised these resource demands.

A Member commented on the benefits of Phase 2 developments for offshore clients. There were no further comments. The Business Committee endorsed the recommendation on implementation of Corporate Actions STP Phase 2 including the indicative timetable with the project due to commence from July 2016.

### **c. Update on T+2 settlement**

The Chair congratulated Miles O'Connor of Citi for his 2015 ACSA Award, which recognised the role that Mr O'Connor had played in market consultation on the move to T+2 settlement in Australia and New Zealand.

ASX's Senior Manager, Clearing Services updated Members on the T+2 settlement project. Since the previous meeting, a number of stakeholder events had been held as outlined in the agenda paper, the Payment Provider Deed was finalised, and that a consultation paper on amendments to the ASX operating rules to accommodate T+2 settlement would be released that afternoon.

The Senior Manager, Clearing Services commented that the recent focus of the project had been on stakeholder readiness for the target launch date, which remained 7 March 2016. The NZ Stock Exchange (NZX) had confirmed its intention to implement T+2 settlement with a target launch date aligned with ASX, and AFMA's intention was that the Australian bond market would also move to T+2 at around the same time.

A Member asked if ASX's target launch date would be delayed if there were delays impacting NZX or the bond market. The Chair responded that ASX was developing a delay scenario analysis outlining the impact of different events on the live date for T+2. The Chair asked Members for their comments on what should be the impact, for example, of NZX delaying its target launch date.

A Member commented that aligned dates were preferred, but an ASX launch ahead of NZX was workable, but not the other way around. Members noted the operational difficulties involved in misaligned launch dates, including issues relating to the shunting of stock between Australian and New Zealand registries. ASX's Senior Manager, Clearing Services commented that a working group would be held with registries in coming weeks to discuss shunting and the turn-around times involved.

The Chair asked if there were any comments on possible non-alignment between ASX and the Australian bond market. Members did not comment.

The Chair noted the resource commitments being made by market users on the basis of a 7 March 2016 target launch date means any decision to delay would be taken very seriously. The Chair noted that ASX would take as an action to report back to the Committee with an overview of the delay scenario analysis, and to take Members' input on that at the next meeting. **[Agreed action 2]**

A Member commented on the use of cheques for settlement payment, and the impact on the speed of settlement. Members then discussed different approaches taken by organisations to the use of cheques for payment, including cost recovery and mandating alternative forms of payment. Members asked whether the Business Committee could be used as a forum for advocating or driving change. The Chair noted Members' comments, and acknowledged that while the issue related to the commercial arrangements in place between participants and their clients, ASX would take as an action to consider if there was a role that it could play in facilitating cheque replacement to assist customers in reducing their costs. **[Agreed action 3]**

#### **d. FATCA and Common Reporting Standard**

ASX's General Manager, Clearing Services introduced the topic as outlined in the agenda paper before introducing ASX's Product Manager to discuss it in more detail.

As background, ASX's Product Manager described the FATCA reporting solution that had previously been put in place in the operating rules for the mFund settlement service in consultation with mFund product issuers and participants.

The current proposal related to certain exchange traded products that would be impacted by FATCA reporting requirements from 1 January 2016. Meeting FATCA requirements was more complicated for issuers of exchange traded products than for issuers of mFunds, because of their different and less direct relationship with holders of their products.

The proposed FATCA reporting solution for exchange traded products involved the capturing by participants of information about holders and intended holders of these products, and the storing of that information on each holder's CHESS HIN (holder identification number). For new holders, the proposal assumed that this information could be captured as part of existing KYC/AML processes by participants. For current holders, it would require participants to contact holders to request the information. The stored information would be available to issuers, who would then conduct any necessary follow-up enquiries with holders.

The Product Manager reported that the effectiveness of this proposed solution had been impacted by recent ATO guidance relating to the treatment of 'recalcitrant' holders (those who had failed to provide the necessary information). The Financial Services Council (FSC) and ASX were engaging with the ATO and Treasury in relation to this guidance, which could leave the industry without a common solution to the reporting requirements.

The Chair noted that the proposed solution was dependent on a resolution to the ATO guidance issue, and on the agreement of an acceptable commercial arrangement with issuers and participants. While recognising these risks, ASX was uniquely placed to support a solution for the industry.

Members were invited by the Chair to ask questions.

A Member asked what information would be required from holders. ASX's Product Manager responded that this was information about the account type, and about the tax residency of the holder, including personal identification details. The information requirements were intended to anticipate requirements of the Common Reporting Standard expected to come in 2017/ 2018.

Another Member asked whether the necessary information could be provided directly by holders to issuers, noting that only a very small number of holders should be impacted. ASX's Product Manager responded that this had been considered, but that to ensure that the information was provided to issuers each time the holder bought a relevant product, it was considered that the most efficient mechanism was to store this information on the HIN.

A Member commented that the responsibility was with issuers but the proposed solution appeared to put the responsibility and risk of the solution on participants. The Chair commented that a general solution to the FATCA requirements would not be easy to implement but that ASX's objective was a solution that would enable participants to continue offering their clients these products, and that would include an acceptable set of commercial arrangements. ASX's Product

Manager noted that ASX would begin engaging directly with participants and stakeholder groups on the proposed commercial arrangements in coming weeks. An update would be provided at the August Business Committee meeting. **[Agreed action 4]**

#### **e. CHES Release 9**

ASX's Product Manager outlined the scope of CHES Release 9, which included the FATCA reporting solution referred to in the previous agenda item, as well as some enhancements for the mFund settlement service.

ASX's General Manager, Clearing Services noted that ASX would advise the market at the end of June if CHES Release 9 would proceed as proposed, or if there were any modifications (which would be detailed in an updated Technology Upgrade Release Notice). **[Agreed action 5]**

### **AGENDA ITEM 6: REGULATORY UPDATES**

#### **a. ESMA Recognition**

ASX's Chief Risk Officer joined the meeting to update the Committee on ESMA recognition.

The Chief Risk Officer reported to the meeting that both ASX Clear and ASX Clear (Futures) now had ESMA recognition. Australia was part of the small group of countries who were the first to receive ESMA recognition. Both clearing houses were now operating on a Cover 2 basis for capital and liquidity purposes. ESMA recognition would keep the risk based capital impost as low as possible for European clearers.

#### **b. Risk Systems Renewal Process**

ASX's Chief Risk Officer then updated the Committee on ASX's risk system renewal process. The renewal process recognised that current processes of calculating margin requirements overnight and sometimes intraday would be replaced with more sophisticated and near-real time processes. The project would be phased, and each phase preceded by a design study that would engage with and take into account customers' requirements. The objective was a more sophisticated system able to deliver margin offsets and efficiencies that will translate into capital efficiencies for customers as well as a set of risk analytics that will enable customers to better manage their business risks.

The Chair provided further comments on the risk systems renewal process in the context of ASX's broader technology refresh, and then invited questions from Members.

A Member commented that more risk data would be positive, and asked whether the data outlined for phase 5 could be brought forward earlier. The Chair responded that that ASX should continue to engage with the market on the proposed deliverables to ensure that they were delivered to the market in the best sequence.

A Member asked about offsetting between equities, futures and OTC products. The Chief Risk Officer responded that the priority was the optimisation of interest rate products for OTC and futures markets, but in time the objective was to have the capability to offset between any combinations of asset classes.

There were no further questions from Members.

### **AGENDA ITEM 7: ADMINISTRATION**

#### **a. Business Committee membership**

ASX's General Manager, Clearing Services noted that August was the second anniversary of Business Committee meetings being held, and thanked Members for their participation. While there was no requirement to rotate membership periodically, it was recognised that Members may wish to rotate from time to time. ASX would meet bilaterally with Members over coming months to

confirm ongoing participation in the Committee and to seek any nominations for membership, and report back to the August meeting. [**Agreed action 6**]

The Chair commented that at the same time, ASX would seek feedback on how the Committee was working, and what Members might wish to see working differently.

A Member suggested extending an invitation to the Stockbrokers Association of Australia (SAA) to appoint representatives to attend meetings of the Committee to represent smaller brokers, noting that many members of the Committee are also members of AFMA. The Member noted that both SAA and AFMA are members of the Forum.

The Chair confirmed that ASX will give consideration to the request. There were no further comments or questions from members.

**b. Forward Work Program**

ASX's General Manager, Clearing Services noted the proposed forward work program for the Committee set out in the agenda papers. Members were invited to review the forward work program to ensure that the right topics were included, and with the right priority. Additionally, Members were invited to suggest any topics for roundtable discussion through the Committee meetings. The General Manager of Clearing Services commented that this feedback could be provided through the upcoming bilateral membership discussions.

There were no comments from Members.

**c. Minutes from the 4 March 2015 meeting**


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

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

Signed as a correct record of the meeting.



24 / 6 / 2015

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Chairman

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Date