



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

- 1. Introduction**
- 2. Service Performance**
- 3. Management Accounts for Cash Market Clearing & Settlement**
- 4. Business Matters**
 - a. Principal-to-principal clearing arrangements
 - b. Update on T+2 implementation
 - c. Update on FATCA & CHES Release 9
 - d. Roadmap for post-trade service infrastructure
- 5. Regulatory Updates**
 - a. Council of Financial Regulators
- 6. Administration**
 - a. Business Committee membership
 - b. Forward work program updated
 - c. Minutes from the 27 May 2015 meeting
 - d. Other matters

ATTENDEES

MEMBERS		
Company	Name	Job Title
ABN AMRO Clearing	Mr Sean Lawrence	Managing Director
ANZ	Mr Andrew Koudrin	Head of Execution, Middle Office & Assurance
ASX	Mr Peter Hiom	Business Committee Chair, Deputy CEO, ASX
Bell Potter Securities	Mr Dean Surkitt (by telephone)	Managing Director Retail
BNP Paribas	Mr David Braga	Head of Securities Services
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	Ms Yen Le	Head of Securities Operations
HSBC	Mr Andrew Bastow	Head of Securities Services
Macquarie Group	Mr James Indge	Cash Equities Business Manager
Morgan Stanley	Mr Craig McGuire	Head of Operations
Morgans	Ms Sue Gye	Manager Operations
National Australia Bank	Mr Nathan Walsh	General Manager, Self Directed Wealth Products & Markets
NSX	Mr Emlyn Scott	Chief Executive Officer
Patersons Securities	Mr Sam Budiselik (by telephone)	Chief Operating Officer
Patersons Securities	Ms Jane Irwin	Head of Operations

ASX Management

Name	Job Title
Ms Amanda Harkness	Group General Counsel & Company Secretary
Mr Tim Hogben	Group Executive, Operations
Mr Stephen Hammon	General Manager, Finance (item 3)
Mr Daniel Moran	Deputy General Counsel Corporate
Mr Rodd Kingham	Senior Manager, Clearing Services
Mr Gary Hobourn	Senior Economic Analyst, Regulatory & Public Policy (items 4c – 5a)

APOLOGIES

MEMBERS		
Company	Name	Job Title
ANZ	Mr Peter Mullin	Managing Director, Pensions & Investments
APX	Mr David Lawrence	Chief Operating Officer & Company Secretary
Bank of America Merrill Lynch	Mr Anatoly Kirievsky	Head of Compliance
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
Goldman Sachs	Mr Jeremy Follett	Executive Director Operations
J.P. Morgan	Mr Suneet Jain	Sales Business Manager, Markets & Investor Services
Morgans	Mr Peter Chisholm	Chief Operating Officer
Pershing Securities	Mr Rob Forbes	Chief Executive Officer
UBS	Mr Conor Foley	Chief Operating Officer

The Chair formally opened the meeting at 12.15pm. 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 Nathan Walsh of NAB and Andrew Koudrin (attending on behalf of Peter Mullin) of ANZ who were attending for the first time.

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 March 2015 and June 2015.

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

- CHES and TAS system availability was 100%.
- Netting efficiency volume and value were steady.
- Average settlement failure rates were higher than previous quarters at about 0.38% as a consequence of the BBY default, although still very low.
- Average cash market margin held was fairly normal at around \$120-130 million. There was a slight delay by one participant in meeting the 10.30am cut-off time, as a consequence of a technical issue. A referral was subsequently made to ASX Compliance.

The Group Executive, Operations also informed the Committee that ASX systems and processes had held up well through the market volatility of the past week. The previous Tuesday had seen the highest equity turnover in ASX history with around 1.49 million trades, which netted down to around 16,000 settlements. Intraday margin calls increased with the increased volatility, and cash market margin held since Monday had averaged at around \$220 million compared with around \$130-140 million historically. The market volatility had also seen a considerable increase in the number of surveillance alerts for price movements.

The Group Executive, Operations asked if Members had any feedback on how their systems and processes had been impacted by the market volatility. No comments were raised.

The Group Executive, Operations noted that unqualified audit opinions in relation to Austraclear, DCS and CHES had been released in August, and also that ASX had determined that 2 October 2015, which had recently been gazetted as a public holiday in Victoria, would be a settlement day.

A Member asked if ASX had considered discontinuing non-settlement days. The Group Executive, Operations responded that ASX was looking into it together with APCA, as it was a concept that was less applicable now as a consequence of electronic banking. Any change could only be made in cooperation with the Reserve Bank, as ASX was reliant on RBA RITS for real time settlement of funds.

Members commented that the discontinuance of non-settlement days would be consistent with client expectations for processing of transactions, but would involve additional costs with public holiday loading. Any change should have a good lead time so that staff and other issues could be managed. The Group Executive, Operations responded that ASX would continue to look at it over the next 6 months but that there would be a period of consultation with the industry before any change.

The Group Executive, Operations then reported on the use of corporate actions STP through the current reporting period, noting that over 300 dividends had been announced by issuers straight to the market with the new process. As flagged at the May meeting, work on the second phase of corporate actions STP was scheduled to commence around July 2016.

Finally, the Group Executive, Operations reported to the Committee on the BBY default, noting that:

- Around 2,000 HINs sponsored by BBY had been moved to a new sponsoring broker or to issuer sponsored by ASX under the process communicated to BBY clients in July. HINs were moving to a number of different new sponsoring brokers. This left around 5,000 HINs still held under the BBY participation. The majority of these HINs related to one or two large white labellers or corporate advisers, and ASX's understanding was that they might be moved in bulk. Any remaining BBY sponsored holdings after 16 October would be moved to issuer sponsored and the clients notified.
- All unused client collateral lodged in relation to equity options positions had been returned or released by ASX.
- ASX was examining a number of potential areas of interest, including liquidity management requirements for participants, tiered capital requirements for participants with different risk profiles, the effectiveness of portability arrangements and the structure of registration of holdings.

The Chair commented that the impact of the BBY on the equity options market was difficult to quantify but there had been a downturn in volumes in the last quarter of the previous financial year, which was when BBY had its trouble. He also commented that the experience of managing the BBY default would be taken into account when looking at CHES replacement.

The Chair invited any other questions on the report. There were no other questions or comments from Members.

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

ASX's General Manager, Finance spoke to the agenda paper. He noted that the accounts were available for download on the ASX website, and were consistent with prior years. The methodology and allocation principles were unchanged. Higher activity levels had resulted in increased revenue in both sets of accounts. Consistently with this, higher rebates were paid. The clearing rebate was \$3.6 million, up from \$0.4 million in the previous year and the settlement rebate was \$1.2 million, up from \$0.2 million in the previous year. Returns on equity were broadly consistent with the previous year, at 12.6% for clearing and 17.5% for settlement.

The Chair invited any other questions on the report. There were no other questions or comments from Members.

AGENDA ITEM 4: BUSINESS MATTERS

a. Principal-to-principal clearing arrangements

ASX's Senior Manager, Clearing Services updated the Business Committee on the working group examining principal to principal clearing arrangements (P2P). An action item from the May meeting was to follow up with firms who had expressed interest in participating in the necessary analysis, with a view to identifying whether the necessary support had been achieved, or whether this initiative should be de-prioritised. ASX had identified that there was a low level of support for continuing with this as a priority now, and recommended to the Committee that the initiative be de-prioritised.

The Senior Manager, Clearing Services invited comments from members. Members agreed with the recommendation, and one member proposed that those firms who were interested in pursuing the initiative could take it forward outside the Business Committee. There were no further comments.

b. Update on T+2 implementation

ASX's Senior Manager, Clearing Services updated the Committee on the implementation of T+2 settlement, noting that:

- The project was on track for March 2016 launch.
- The current focus was on participant and vendor readiness.
- The third Market Implementation Group (MIG) meeting was held in June, with the next meeting scheduled for late October.

A Member asked what the level of change was that would be required in the participant community, noting that for a number of participants that impact should be minimal and require only communication with their clients about the shorter settlement period.

The Senior Manager, Clearing Services agreed with the comment, and noted that the impact varied across different market participants, and that there was a reasonable impact also on custodians, registries and vendors.

A Member asked about the decision process that would be in place if there were market users who were not ready by March 2016.

ASX's Group Executive, Operations responded that if there were participants who were not ready for the launch, ASX would assess the impact on settlement efficiency, so that it would take a market-wide view.

A Member commented that the project was relatively straightforward from the perspective of an institutional broker, but became more complicated for retail brokers because of client communication and settlement behaviour change, and was also more complicated for those participants dealing with third parties such as securities dealers (or shadow brokers) noting that this was an area to watch leading up to the launch date.

ASX's Senior Manager, Clearing Services spoke to the timeline in the agenda paper, noting that there were important checkpoints at the MIG meetings in October and December, and that the workshops in November would provide a checkpoint on progress with testing. There was a more formal process in February and then immediately prior to the target launch date when go-live decisions would be made.

The Chair then spoke to the scenario analysis in the agenda paper, which was an action item from the May meeting, noting that ASX proposed that:

- An issue with participant readiness for the target launch date would be assessed with a view to the impact on settlement efficiency.
- If ASX was ready for the target launch date but the wholesale bond market was not, then ASX would proceed.
- If ASX was ready for the target launch date but NZX was not, then ASX would proceed.

The Chair invited Member feedback on this. He also noted that the question of whether the bond market and/ or NZX should proceed if ASX was not ready was not something for ASX to decide, but that Members may take that forward with AFMA and NZX.

The Business Committee agreed that ASX should proceed on the basis outlined in the scenario analysis table.

ASX's Senior Manager, Clearing Services then commented on discussions that ASX had had with the Stockbrokers' Association of Australia and with the Australian Payments Clearing Association in relation to the continuing use of cheques in the broking industry, which was an action item from the May meeting. He noted that there was no indication that there would be any industry guidance from APCA in relation to cheque replacement. ASX's Group Executive, Operations commented that APCA had indicated that was that this was a point that ASX should take up with the Reserve

Bank of Australia, particularly in the context of the development of the New Payments Platform, and that ASX would do that, noting that any specific rules or guidance around forms of payment were principally a matter between participants and their clients.

The Chair asked if Members had any comments on additional steps that ASX could be taking to assist with industry readiness for T+2 settlement. A Member suggested that ASX could engage with shadow brokers through the Australasian Securities Dealers Association, and ASX agreed to do that. **[Agreed action 1]** Another Member commented that feedback on the level of engagement from ASX to date had been very positive.

c. Update on FATCA & CHES Release 9

ASX's Senior Economic Analyst joined the meeting for this agenda item. The Chair introduced the item by noting that ASX had proposed the inclusion of FATCA functionality in CHES Release 9, as discussed at the May meeting. Since that earlier discussion, there had been some developments in discussions with Treasury and the ATO about the FATCA reporting requirements.

ASX's Group Executive, Operations commented that the functionality proposed for CHES Release 9 was in an effort by ASX to find the best solution for the industry to the FATCA reporting requirements for exchange traded products, and that ASX has no interest in pressing a CHES-based solution. He commented that discussions more recently had moved away from a CHES-based solution to a solution that might take existing FATCA reporting requirements in the banking industry and extend them to cover reporting requirements in respect of exchange traded products as well. This would require the ATO to put in place the necessary arrangements to link reporting in relation to bank accounts and reporting in relation to securities accounts. It was not clear whether this was feasible, and ultimately under the agreement between the Australian and US governments it was a question of what reporting would satisfy the US Internal Revenue Service requirements, but there appears now to be greater appreciation at the Australian and US government level that there are some practical challenges with implementing these requirements.

As a consequence of this, the mFund enhancements that were intended for CHES Release 9 would proceed into the April/ May CHES release next year, and the FATCA functionality has been removed from the release.

A Member commented that there was no support in the participant community for a CHES-based FATCA solution and that it did not appear that it would be a complete solution for issuers, so the current focus was on a bank account-based solution. The Member commented that there did not seem to be any reason why the ATO could not use existing data provided for tax purposes and cross-check that data with bank account information to get close to the FATCA reporting requirements without anything further. The best outcome would be a solution that did not impose any requirements on the participant industry and that allowed clients to continue trading in exchange traded products which were a popular and growing product set.

The Chair endorsed this comment, cautioning only that this solution was reliant on agreement and actions from the relevant Australian and US government agencies.

d. Roadmap for post-trade service infrastructure

The Chair provided an update on this agenda item. He noted that ASX had recently appointed a new General Manager, Equity Post Trade Services, who would join the organisation in October. From then, ASX would be exploring what it can do to design its post-trade infrastructure in a way that will remove complexities and reduce costs for the whole equity market, as part of replacing CHES. By around February 2016, ASX intends to begin engaging with the industry about its proposals and to take feedback on the key issues for participants. This process will probably take around 6 months, so that around 12 months from now ASX should be in a position to start talking about what the technical solution will look like.

The Chair noted that this was dependent on the Council of Financial Regulators decision which was to be discussed in the next agenda item, but if it is the case that the Code of Practice is continued for another 5 years then this is the work that ASX will commence.

The Chair invited questions from Members. A Member asked if the timing for CHES replacement had changed. The Chair responded that it had not, that it was probably 3 years away depending on when work started, and that ASX was still targeting 2018. There were no further questions from Members.

AGENDA ITEM 6: REGULATORY UPDATES

a. Council of Financial Regulators

The Chair updated the Business Committee in relation to the Australian government's decision on the review of the market structure for clearing cash equities. The Chair noted that ASX was hopeful of a decision by October, although this may be impacted by other government priorities.

A Member raised the \$7.3 million referred to in the agenda paper as the approximate saving to ASX customers (based on FY15 volumes) from a new clearing fee schedule if the current market structure is retained, and asked if this amount related to the total rebates for trading, clearing and settlement in FY15 which was approximately \$7.3 million. The Chair confirmed that this was a coincidence and there was no structural link between the two amounts. He also noted that the savings from the new clearing fee schedule would be embedded fee reductions and not rebates, so that the entire amount would apply even if volumes do not grow, providing greater certainty for the market.

There were no further questions from Members.

AGENDA ITEM 7: ADMINISTRATION

a. Business Committee membership

The Chair informed the Business Committee that, as agreed at the May meeting, ASX had met bilaterally with Members to confirm their ongoing participation in the Committee and to seek any nominations for membership. The Chair confirmed that all Members had agreed to continue to participate in the Committee. The Chair thanked Members for their continuing commitment, as well as those new Members who had joined.

The Chair commented that ASX had received positive feedback on the operation of the Business Committee, but recognised the need to continuously improve, and particularly the importance of identifying the topics that Members would like to focus on going forward. While there would be an understandable focus on CHES replacement, the Chair encouraged Members to raise any additional topics for discussion and focus by the Committee.

There were no comments from Members.

b. Forward Work Program

The Chair noted that the forward work program for the Committee had been updated as set out in the agenda papers. There were no comments from Members.

c. Minutes from the 4 March 2015 meeting

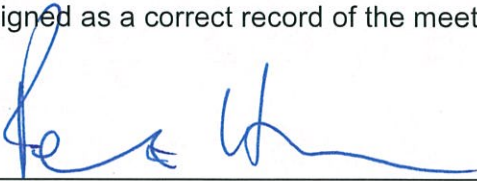
The Chair noted the minutes from the 27 May 2015 meeting and invited comments. As there were no comments, the Chair noted that the minutes were approved.

d. Next meeting

The Committee noted that the next meeting will be held at 4pm on Thursday, 26 November 2015.

As there was no further business discussed, the meeting closed at 1.15pm.

Signed as a correct record of the meeting.



Chairman

15/11/15

Date