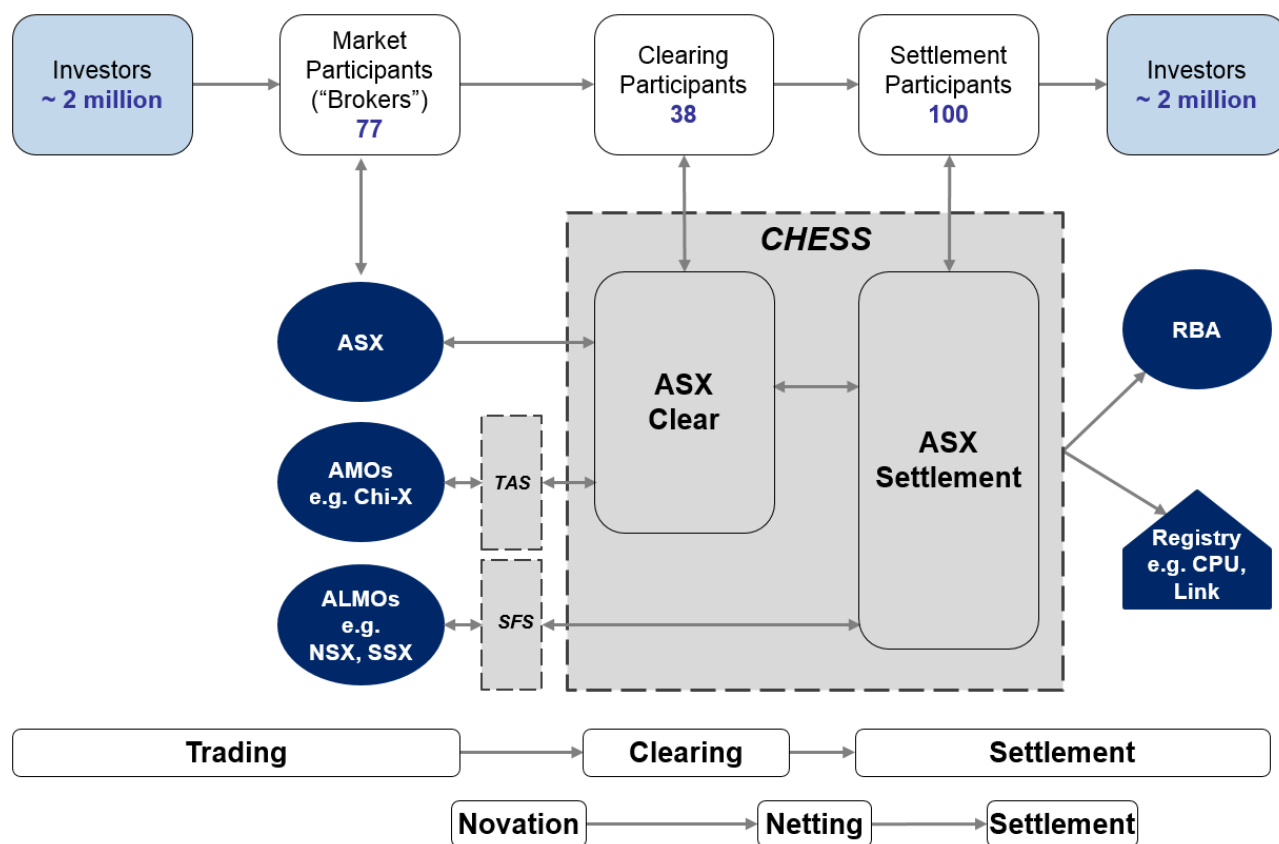


# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 2A

<b>Topic</b>	<b>Report on the operational performance of cash market clearing and settlement services</b>
<b>Date of the Meeting</b>	15 June 2016
<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 June 2016 quarter<sup>1</sup>, the average monthly system availability was 100% for CHES. The average monthly availability of CHES has been 99.99% between November 2011 and May 2016.

## 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 June 2016 quarter<sup>2</sup> 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 May 2016 (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 June 2016 quarter are reported in Attachment A. They are also supported by charts demonstrating a longer reporting period in Attachment B.

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<sup>1</sup> Up to 31 May 2016

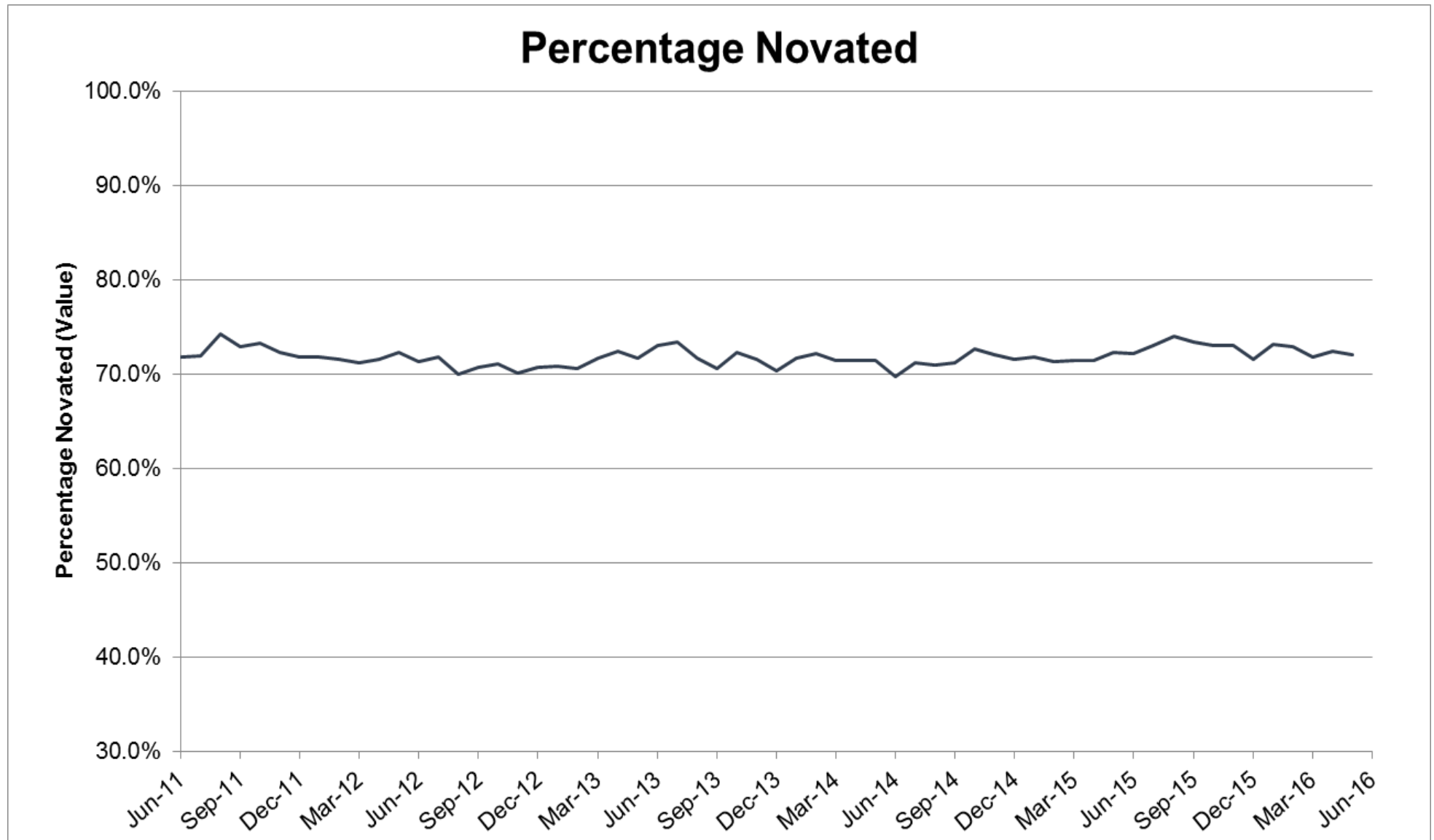
<sup>2</sup> Up to 31 May 2016

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

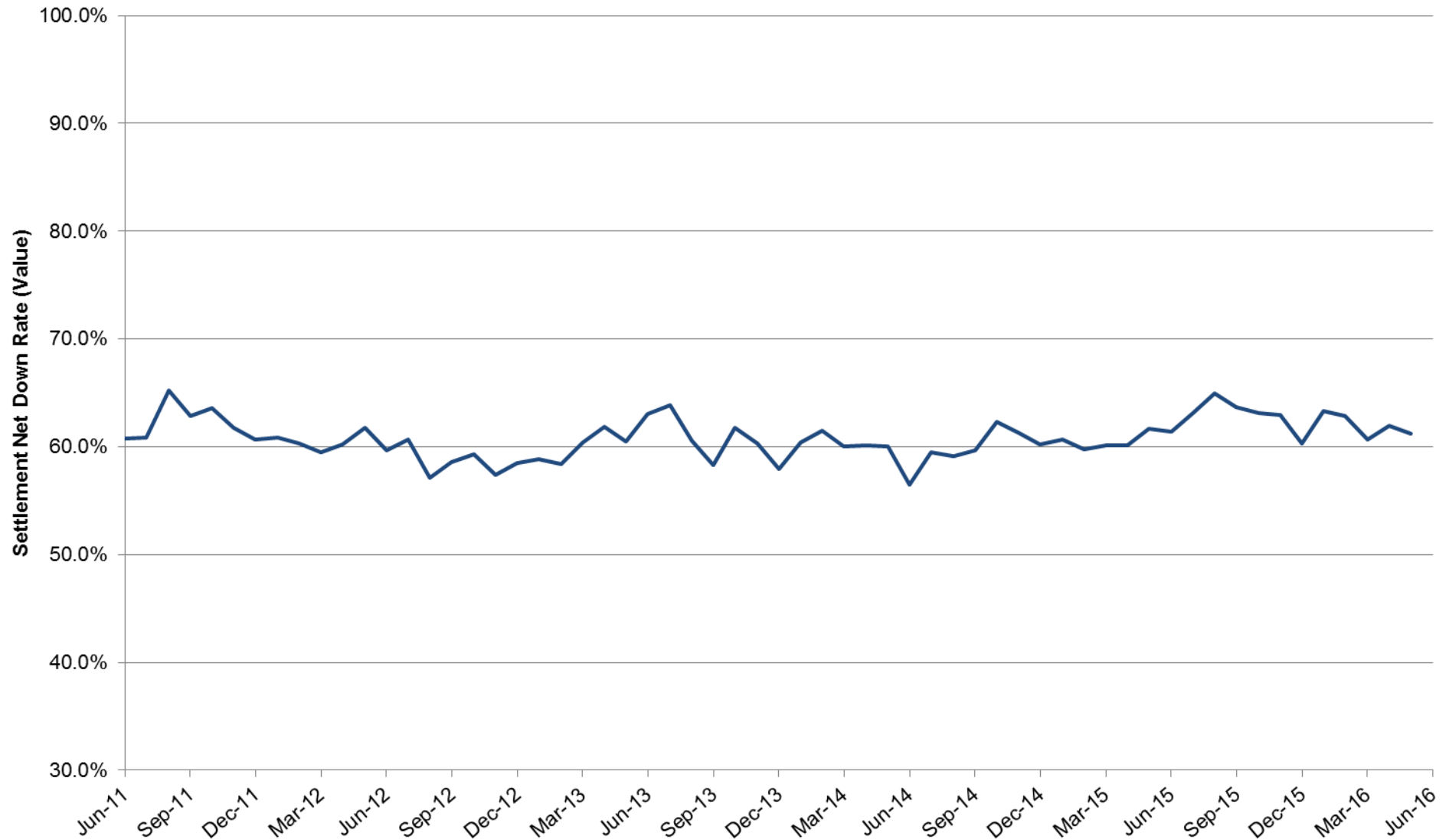
	June 2016 Quarter <sup>3</sup>	March 2016 Quarter	December 2015 Quarter
System Availability (CHESS)	100%	99.92%	100%
System Availability (TAS)	100%	100%	100%
Total Trades Accepted (ASX)	42,259,195	62,629,492	58,341,453
Total Trades Rejected (ASX)	10	0	16
Total Trades Accepted (Chi-X)	12,097,265	16,654,594	14,533,020
Total Trades Rejected (Chi-X)	1	0	1,396
Total Settlements (SSX)	5	0	0
Total Value of Settlements (SSX)	\$6,744	0	0
Total Settlements (NSX)	205	502	312
Total Value of Settlements (NSX)	\$2,137,489	\$3,783,558	\$964,239
Daily Average Traded Value (On and Off Market)	\$6.2 billion	\$6.3 billion	\$6.1 billion
Daily Average Cleared Value	\$4.5 billion	\$4.6 billion	\$4.4 billion
Percentage Novated	72.2%	72.6%	72.6%
Daily Average Cleared Value Post-Netting	\$1.72 billion	\$1.73 billion	\$1.66 billion
Netting Efficiency (\$)	61.6%	62.3%	62.2%
Daily Average Settled Value (Including Non-Novated)	\$8.9 billion	\$9.1 billion	\$9.3 billion
Settlement Efficiency	99.93%	99.91%	99.86%

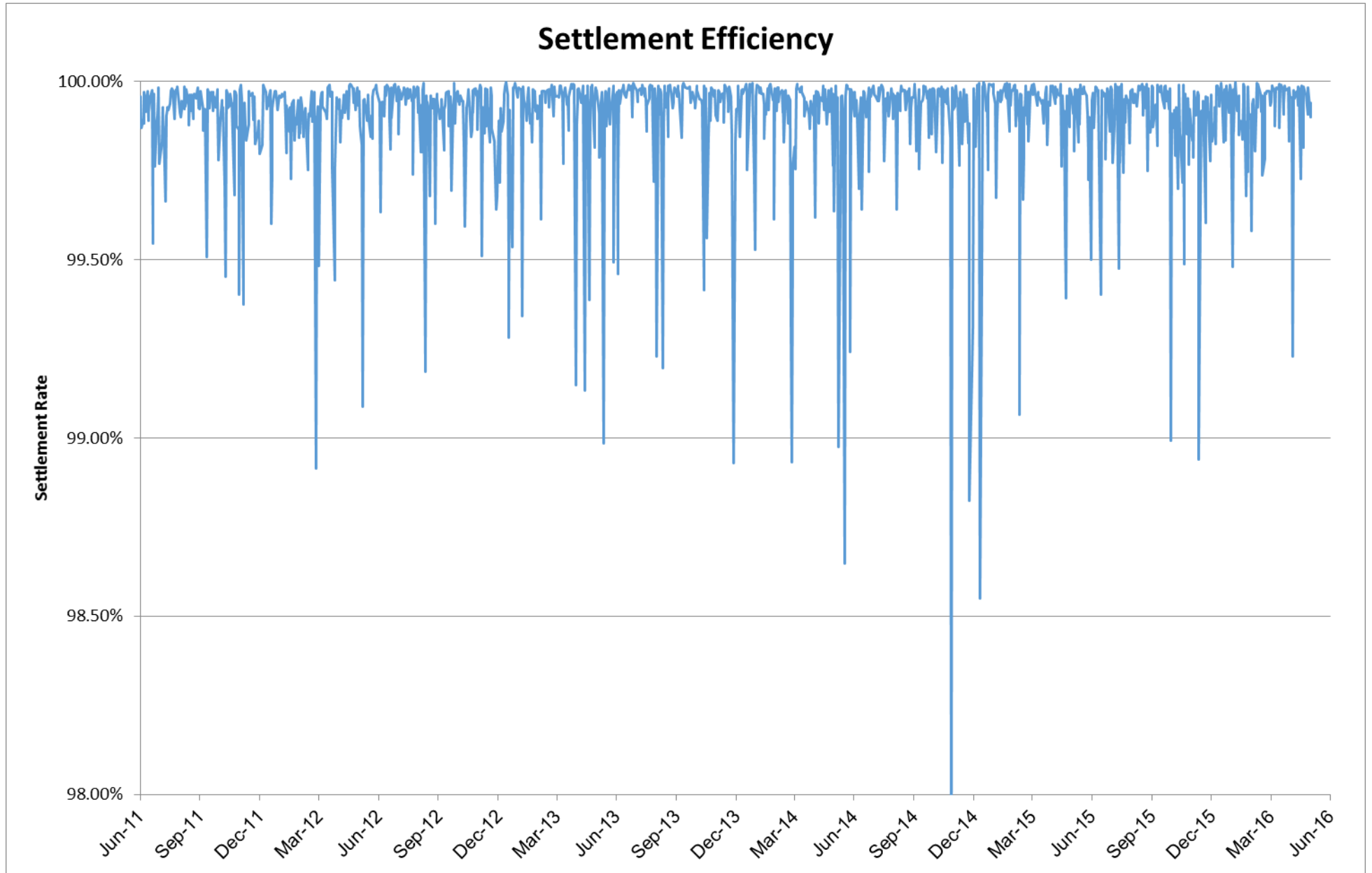
<sup>3</sup> Up to 31 May 2016

**ATTACHMENT B – PERFORMANCE OF ASX'S CLEARING AND SETTLEMENT SERVICES FROM JUNE 2011 TO MAY 2016**



### Netting Efficiency





# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 3A

<b>Topic</b>	Update on T+2 implementation
<b>Date of the Meeting</b>	15 June 2016
<b>Purpose of this paper</b>	The Business Committee will be provided with an update on implementation of the T+2 settlement cycle.
<b>Action required</b>	For information. To note the agenda paper.

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## PROJECT UPDATE

The transition to a T+2 settlement cycle in the cash equity market was successfully implemented on 7 March 2016. ASX is not aware of any adverse impact to stakeholders or market efficiency and the anticipated benefits have materialised. For the ASX, the project was delivered on time, to scope and within budget.

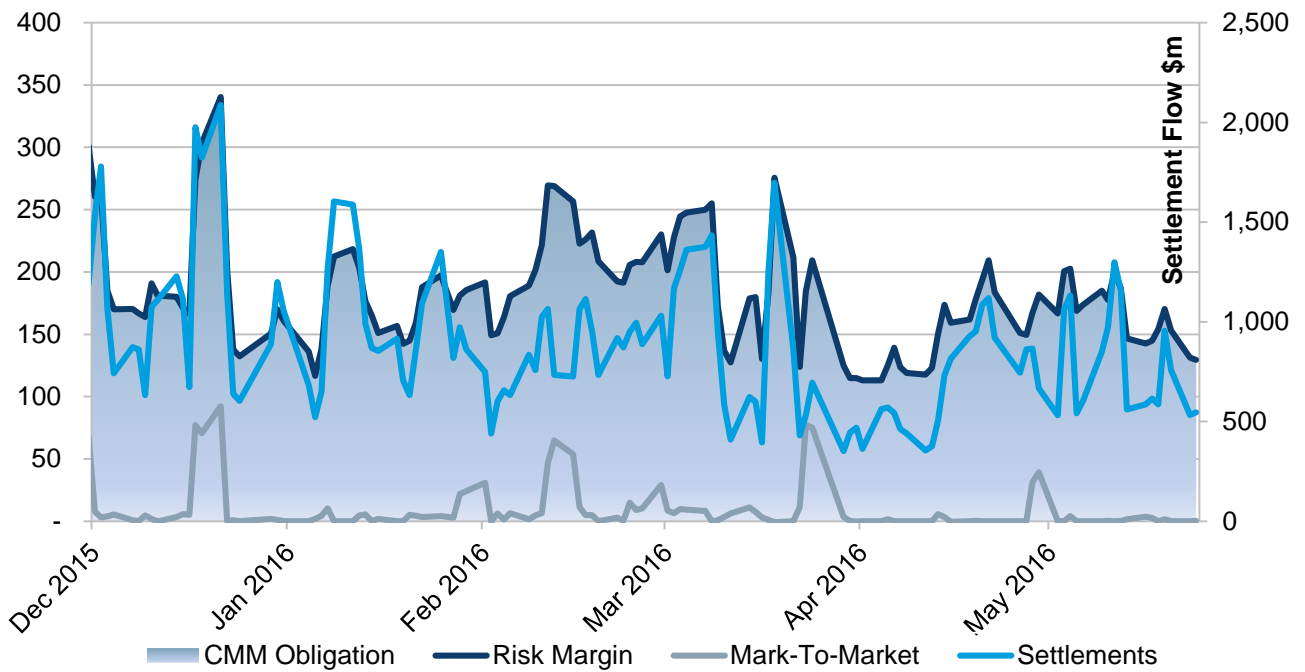
The entire industry is to be congratulated on the success of this transition and the ASX sincerely thanks all those involved for their support throughout the life of the project.

## BENEFITS DELIVERED

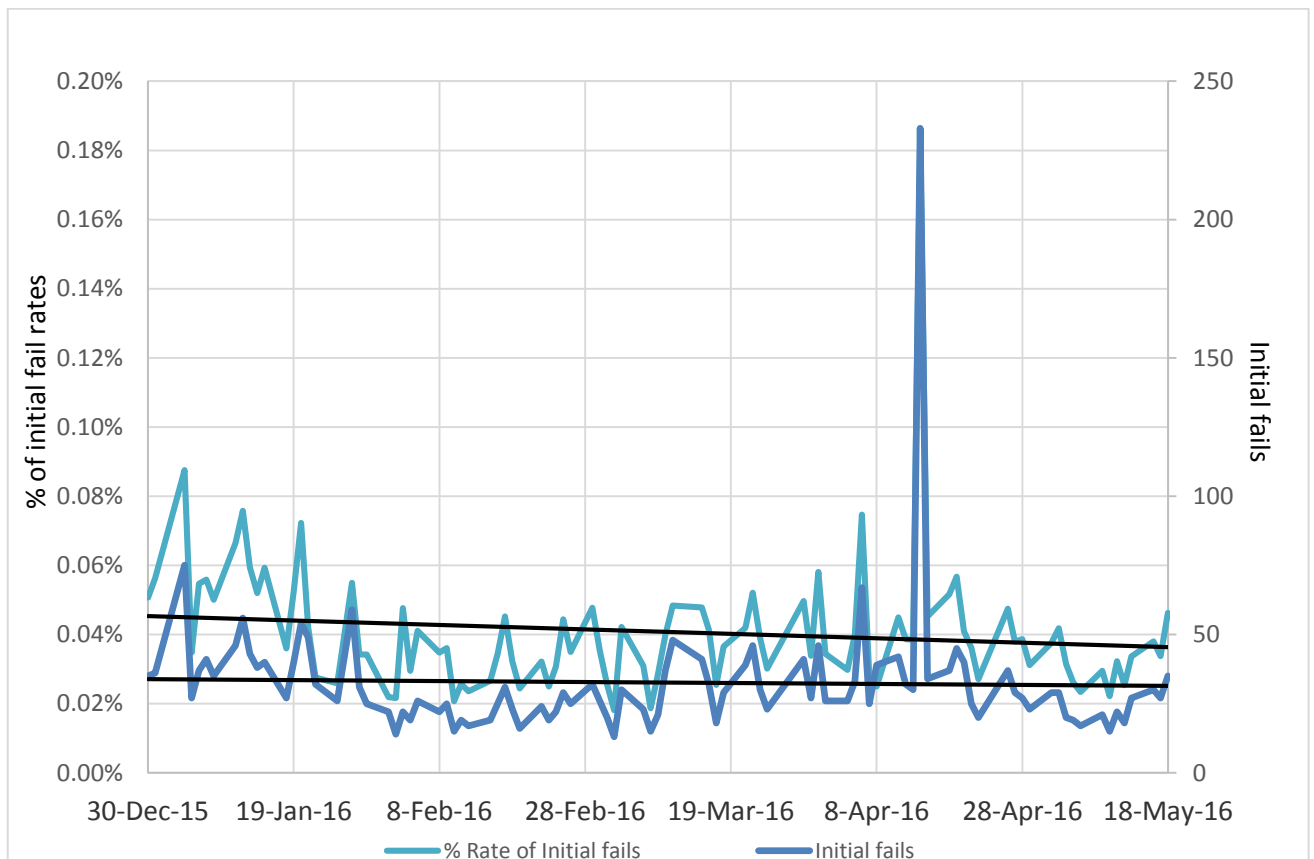
The key benefits delivered from the shortening of the settlement cycle by one day have been:

- Reduced counterparty risk exposures for individual end investors, participants and the central counterparty, resulting in lower systemic risk for the industry as a whole.
- With the drop in regulatory capital required to mitigate risk, clearing participants are seeing a reduction in their Liquid capital requirements. The February – April 2016 comparison shows a reduction of 17%.
- Daily Cash Market Margins (CMM) are between 25%-30% lower, producing a reduction of \$80-\$85m in total margin payments with a consequent saving in funding costs for the industry (see graph 1 below).
- Driving greater post-trade operational and process efficiencies and associated cost savings e.g. Cheque reduction or removal / Contra rule improvements / Cash up front / Electronic contract notes.
- High market settlement efficiency has been maintained. Failed settlement rates are at or below normal levels. The extended batch cut-off time to 11:30am is allowing additional time to prepare for settlement (see graph 2 below).
- Better alignment with both regional and global settlement practices e.g. Europe and Hong Kong (including NZX and the local Wholesale Bond Market).

Graph 1 – Clearing Risk Management report



Graph 2 - Failed Settlement Statistics





## **NEXT STEPS AND FOCUS**

ASX will continue to closely monitor failed settlement and market performance.

The learnings from our internal post implementation review and external feedback received on this project (particularly stakeholder communication / management and readiness planning) will be applied to future projects.

## **QUESTIONS FOR THE BUSINESS COMMITTEE**

- Is the Business Committee aware of any issues following the implementation of the T+2 Settlement cycle?



## ASX New Trading Platform Project Update – 1/6/16

Please find below the latest update. ASX continues to progress Release 9 with preparations in the final stages and we anticipate making the release available in the next few weeks.

To assist customers ASX will be updating both CDE and the NTP Production system with release 8.5 next week. Customers are advised to make use of access to this near final release to maximise the efficiency of the time available on Release 9. Further details and updated documentation will be sent to customers separately.

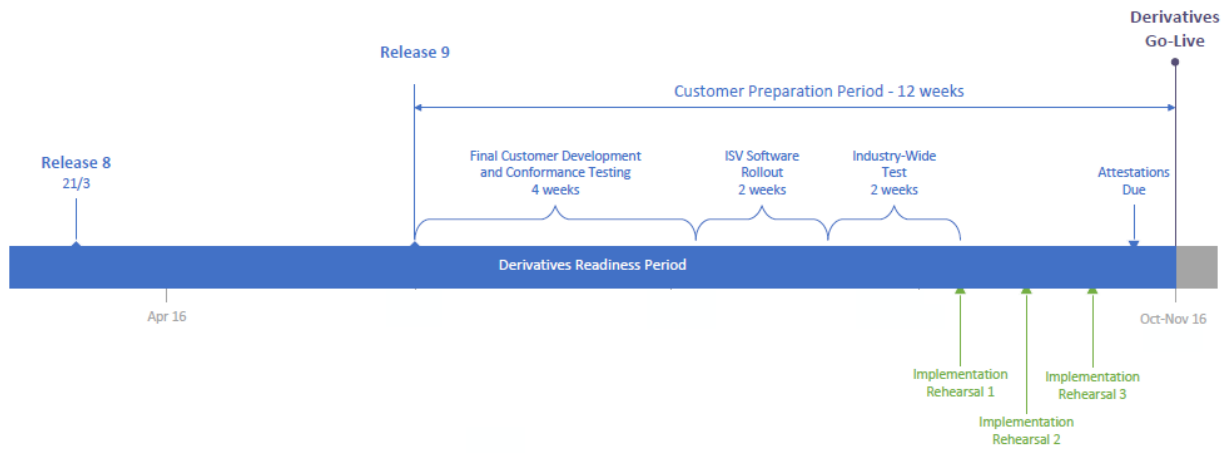
Consistent with a 12 week Customer Preparation Period an August go-live date is no longer achievable and the timetable has been updated to reflect a new expected production go-live of October-November.

Customers are reminded ASX will be testing a range of failover scenarios on NTP production system over the coming weeks. Please see [here](#) for further details and timing of these scenarios.

Finally, customers are asked to prioritise establishing connection to the NTP Production system, please contact your TAM ASAP if you require assistance. ASX has extended the deadline until 17<sup>th</sup> June to give customers additional time.

NTP Derivative Milestones	Status	Date
<b>Next published update to timeline</b>	Confirmed	15 June 2016
<b>Near Final Derivatives Software Release (Release 8.5) on CDE and NTP Prod</b>	Expected	9 June 2016 – Prod 10 June 2016 - CDE
<b>Final Derivatives software release (Release 9)</b>	Expected	June 2016
<b>Customer Production System connection activities completed</b>	Confirmed	17 June 2016
<b>Customer Preparation Period – Start</b>	Expected	June 2016
<b>Conformance Testing – Open</b>	Expected	June 2016
<b>Conformance Testing – Complete</b>	Confirmed	+ 4 weeks
<b>ISV Software Rollout</b>	Confirmed	+ 2 weeks
<b>Industry Wide Test</b>	Confirmed	+ 2 weeks
<b>Implementation Rehearsal Weekends 1 – 3 &amp; Attestation</b>	Confirmed	+ 4 weeks
<b>Customer Preparation Period - Complete</b>	Expected	Sept - Nov 2016
<b>Derivatives go-live window</b>	Expected	Oct – Nov 2016

\* A status of Expected indicates the current planned date for an activity and may be subject to change prior to being confirmed.



## BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4A

<b>Topic</b>	Cash Equities Clearing Competition Decision
<b>Date of the Meeting</b>	15 June 2016
<b>Purpose of this paper</b>	To provide the Business Committee with the opportunity to discuss the Treasurer's recent announcement on competition in cash equities clearing.
<b>Action required</b>	The agenda paper is provided for noting.

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### GOVERNMENT DECISION ON COMPETITION IN CASH EQUITIES CLEARING

On 30 March 2016, the Treasurer, the Hon Scott Morrison MP, [announced a reform package](#) that will be developed over the next 18 months to put in place the regulatory arrangements to facilitate 'safe and effective' competition in cash equities clearing. As part of the announcement on competition in cash equities clearing, the Treasurer endorsed the recommendations of the Council of Financial Regulators' (CFR) ['Review of Competition in Clearing Australian Cash Equities: Conclusions'](#) Paper (CFR Conclusion Paper).

The recommendations provide for the development and implementation of 'minimum conditions' to support the Government's policy for safe and effective competition in cash equities clearing. The 'minimum conditions' will set out the regulatory arrangements to ensure competition does not compromise financial stability or the fair and effective functioning of the market.

The Treasurer also endorsed CFR setting out the regulatory expectations for ASX's conduct in operating its cash equities clearing and settlement facilities while it remains the sole provider of these services. The CFR has foreshadowed that the Regulatory Expectations will relate to a number of key governance, pricing and access matters. Section 6.2 of the CFR Conclusions Paper set out the core principles upon which the regulatory expectations will be based. Section 6.2 of the CFR Conclusions Paper is provided in Attachment A.

In respect of its recommendations, the CFR has confirmed that ASX will not be required to make any operational investments in its existing cash equities clearing and settlement infrastructure in anticipation of competition.

As part of the reform package, a number of legislative amendments will be introduced to provide the regulators with reserve powers to enforce the Regulatory Expectations, and for the ACCC to be given the power to arbitrate access disputes relating to clearing and settlement services.

ASX proposes to amend the Trade Acceptance Service Legal Terms to reflect the proposed power for the ACCC to arbitrate access disputes.

### CODE OF PRACTICE

ASX will update its Code of Practice following the release of the Regulatory Expectations to ensure alignment between its commitments to customers and stakeholders and the Regulatory Expectations.

In the interim, ASX has commissioned an internal and external review of compliance against the core commitments of the existing Code of Practice over the past 12 months. The regulatory agencies have agreed to this approach. The reviews will be published at the same time as ASX's FY16 financial results.

**ATTACHMENT A****6.2 Regulatory Expectations**

The regulatory expectations would be based on the principles established by the Agencies in the 2012 Review to underpin the Code, with some specific measures drawn from:

- ASX's existing Code of Practice
- additional commitments proposed by ASX in its submission to this Review
- stakeholders' views on current gaps in the Code.

These expectations would apply to ASX's engagement with and services to users of its cash equity CS services for both ASX securities and non-ASX listed securities. Users should be broadly defined to include not only CS participants, but also end users, unaffiliated market operators and CS facilities, technology service providers and other relevant stakeholders. The regulatory expectations would remain in place for each service until such time as a committed competitor emerged for that service. The core elements that would be expected to be included in the regulatory expectations are set out below.

**6.2.1 User input to governance**

To ensure responsiveness to users' evolving needs, formal mechanisms should be maintained within ASX's governance framework to give users a strong voice in strategy setting, operational arrangements and system design, and to make ASX's CS facilities for cash equities directly accountable to users. As part of this:

- ASX should make an explicit commitment to investing promptly and efficiently in the design, operation and development of the core CS infrastructure for the Australian cash equity market, including CHES. Investments should ensure that, to the extent reasonably practicable, the core CS infrastructure adopts (if not exceeds) relevant international best practice and that its performance, resilience, security and functionality meet the needs of users.
- ASX should ensure that the membership of user governance arrangements is representative of the user base of its CS services and that members have a strong input into the agenda of meetings and the setting of priorities.
- ASX should further maintain accountability arrangements that provide for regular attestations as to the effectiveness of ASX's interactions with users. One example of such an arrangement might be for ASX's user governance mechanisms to operate on a 'comply or explain' basis; that is, the presumption would be that the Board take actions in accordance with recommendations from the user governance mechanisms, or else explain why such actions have not been taken. Another example might be that ASX produce annually a report outlining the investment projects that ASX has progressed and how it has taken into consideration the views of users.
- ASX should formally commit to retaining a Board structure for ASX Clear and ASX Settlement that contains a minimum of 50 per cent of non-executive directors that are also independent of ASX Limited, and where a subset of these directors can form a quorum.
- ASX should establish governance structures and reporting lines at the management and operational levels that promote 'open access' to its core CS infrastructure. These arrangements should ensure, perhaps through the key performance indicators set for management staff, that the interests of users of these services are upheld (see also 'Access to clearing and settlement services' below).

**6.2.2 Fair, transparent and non-discriminatory pricing of clearing and settlement services**

ASX should commit to a minimum level of transparency of pricing across its range of CS services. The pricing of these services should not discriminate in favour of ASX-affiliated entities (except to the extent that the cost of providing the same service to another party was higher). To ensure fair, transparent and non-discriminatory pricing of CS services, ASX should implement a range of measures:

- ASX's CS fee schedules (and any future changes thereto) should be published along with an externally audited statement justifying their reasonableness, with reference to the calculated return on equity, benchmarked price lists or other relevant metrics.

- ASX should ensure that all prices of individually unbundled CS services, including rebates, revenue-sharing arrangements and discounts applicable to the use of these services:
  - are transparent to all users of the services
  - are based on the efficient costs of providing those services
  - do not discriminate between ASX-affiliated and other users of CS services
  - are made available to stakeholders in a form such that the impact of pricing changes can be readily understood, including the extent to which they have the potential to materially shift revenue streams between trading, clearing and settlement services.
- ASX should retain an appropriate model for the internal allocation of costs, including the cost of allocated capital, as well as policies to govern the transfer of prices between ASX Group entities. Compliance with these policies would be expected to be subject to internal audit review, as well as periodic independent external review.
- ASX should continue to commission and publish regular independent reviews of how its cash equity CS fees compare with those of CS facilities in other markets.

Relatedly, the Agencies are of the firm view that – other than where pricing is anti-competitive or gives rise to financial stability or market functioning issues – the fees charged by ASX are a commercial matter for ASX and its customers. ASX has made it clear that the fee cuts it has recently offered its clearing customers, as detailed in its response to the Agencies' consultation, are contingent on an extension of the moratorium on competition for a further five years. ASX's proposals may nevertheless provide a useful benchmark for commercial negotiations with market participants.

### **6.2.3 Access to clearing and settlement services – service levels, information handling and confidentiality**

ASX should facilitate access to its cash equity CS infrastructure on commercial, transparent and non-discriminatory terms. Non-discriminatory terms in this context are terms that do not discriminate in favour of ASX-affiliated entities (except to the extent that the cost of providing the same service to another party is higher). As part of this:

- ASX should retain standard terms and conditions for users that support access to its CS infrastructure on commercial, transparent and non-discriminatory terms and promote outcomes that are consistent with those that might be expected to arise in a competitive market.
- ASX should have objectives for its CS services that include an explicit overarching commitment to open access (see also 'User input to governance' above). Consistent with these objectives, service level agreements should commit ASX to providing access to its CS services for unaffiliated market operators and CS facilities on operational and commercial terms and service levels that are materially equivalent to those that apply to ASX as a market operator or CS facility.
- ASX should adhere to a protocol for dealing fairly and in a timely manner with requests for access, including reasonable timeframes for responding to enquiries and arrangements for dealing with disputes.
- ASX should demonstrate, and periodically attest, that any investments in the systems and technology that support its cash equity CS services did not raise barriers to access from unaffiliated market operators or CS facilities.

While ensuring that the above expectations are met, ASX should retain, and on an ongoing basis review, its arrangements for the handling of sensitive or confidential information. Consistent with governance arrangements that promote open access (see 'User input to governance' above), these arrangements should ensure that conflict sensitive information pertaining to the strategic plans of unaffiliated market operators or CS facilities is handled sensitively and confidentially and in particular cannot be used to advance the interests of ASX as a market operator or CS facility.

# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4B

<b>Topic</b>	<b>Minimum Core Capital Requirement, Collateral Haircuts and ETO Initial Margins</b>
<b>Date of the Meeting</b>	15 June 2016
<b>Purpose of this paper</b>	To update the Committee on the Minimum Core Capital consultation, changes being introduced to collateral haircuts and ETO margin enhancements to cover spread, liquidity and concentration risks.
<b>Action required</b>	For noting

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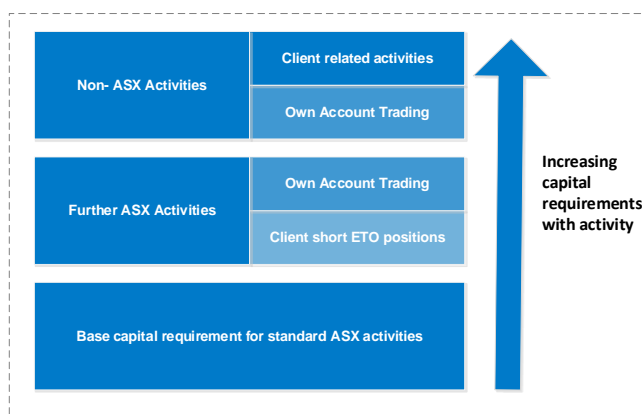
## EXECUTIVE SUMMARY

ASX is proposing a number of enhancements to its risk control framework including a more risk responsive approach to setting Clearing Participant (CP) minimum core capital requirements, a less stringent approach to the setting of collateral haircuts including tiering of equity haircuts and finally, the introduction of spread, liquidity and concentration multipliers.

The paper provides a summary of each change.

## MINIMUM CORE CAPITAL REQUIREMENT (MCCR)

ASX is consulting on enhancements to the MCCR methodology to reflect that greater complexity inherent within a CP's business increases the probability of unexpected financial, operational or compliance shocks that could result in CP losses and necessitate higher minimum core capital levels to be able to absorb them. This greater complexity includes the level of own account business, the extent of non-ASX business, and the degree of client short ETO activity as illustrated in the following diagram:



Currently, the MCCR can range between \$5m and \$20m depending on the extent of third party clearing. The proposed MCCR will range between \$5m and \$35m depending on the extent of third party clearing and degree of inherent business complexity. While the proposed MCCR will increase the MCCR for many CPs, most CPs already have core capital exceeding the proposed MCCR. A few CPs will either have to raise their core capital or consider changes to their business model. The proposal allows a 12 month transition period from the date of implementation.

## CHANGES TO COLLATERAL HAIRCUT SETTING APPROACH

ASX intends to introduce two methodology changes to its collateral haircut setting approach:

- Use of a less stringent definition of stress events for collateral haircut setting (agreed with the RBA), from the worst move to the 5th worst move, in the last 20 years (i.e. 99.9% confidence interval). As a result, haircuts are calculated using a less extreme set of stressed market conditions compared to the CCPs' Capital Stress Testing (CST) model, thereby providing a more appropriate split of potential value loss in stressed conditions between haircuts and Stress Test Exposure Limit (STEL) utilisation; and

- b) Better alignment of the haircut rates of eligible equity collateral securities with their inherent volatility characteristics by introducing several haircut tiers within which securities with similar volatility profiles are grouped together.

Applying the new haircut setting approach results in three tiers of equity securities with haircuts of 15%, 20% and 30% respectively, where each tier comprises approximately 1/3 of the S&P/ASX 200 index market capitalisation.

The impact of using the new haircut rates above results in an increase in the 'margin value' attributable to the collateral holdings of S&P/ASX 200 equities of 15% or \$317m in aggregate i.e. effectively representing \$317m of excess collateral value as at the end of February 2016.

## **SPREAD, LIQUIDITY AND CONCENTRATION RISKS**

ASX is looking at a more granular approach to deal with three distinct risks that will enable the clearing house to better manage and tailor both initial margins (IM) and capital stress tests (CST) to such risks at a CP level. These risks are as follows:

- Bid/Offer Spread Risk – the risk that the bid/offer spreads either are normally wide or materially widen increasing the cost of closeout over and above mid-point pricing currently applied today.
- Market Liquidity Risk – the risk that insufficient demand exists to closeout positions within current holding period assumptions for price and volatility shocks.
- Concentration Specific Risk – the risk that large single stock or risky asset exposures (like electricity and agriculture) within a CP's portfolio, expose a CP to significant specific risk normally diversified away in a balanced portfolio.

### **Approach**

Enhance the current practices using existing operational capabilities and implement within the next three to six months, after consultation at a CP level and review with product and risk consultative committees. These enhancements are as follows:

- Spread risk - implemented under the existing IM and CST framework by increasing volatility shocks in the ETO market (there is no additional spread charge to be applied to cash markets)
- Liquidity risk - apply add-ons to IM and multipliers to price and volatility shocks for CST scenarios across both ETO and cash markets
- Concentration risk - apply add-ons to IM and multipliers to price and volatility shocks for CST scenarios across both ETO and cash markets.

Liquidity and concentration risks will be applied using IM add-on tables for margin and CST multiplier tables for CST scenarios independently to cash markets and ETO markets. Positions that exceed one average day's trading volume (ADTV) in a stock for cash markets and collateral or 10% open interest in options, will be subject to an additional liquidity add-on or multiplier impact. Positions that exceed 10% on a delta equivalent basis of a CP's portfolio will likewise incur an additional concentration add-on or multiplier impact. Like existing additional initial margin (AIM) practices, it is proposed the AIMs from liquidity and concentration multipliers will be charged at a CP house level with any pass on at a client level left to CP discretion. A CP dollar value minimum threshold will apply for each of the ETO and cash markets to ensure additional charges are only applied when material.

Modelling of the liquidity and concentration multipliers over the last 12 months indicates that on average cash equity margins would have increased by 1% and ETO margins by 10% albeit met by those CPs with greater risk exposures.



# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5A

<b>Topic</b>	<b>Forward Work Program Update</b>
<b>Date of the Meeting</b>	15 June 2016
<b>Purpose of this paper</b>	To update the Business Committee on the forward work program extending to March 2017.
<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 February 2016 to March 2017. The Business Committee provided input into the forward work program at the 17 February 2016 meeting and members have had further opportunity to add topics via e-mail post the last meeting.

The forward work programme has been amended to reflect requests to continue updates on - the developments on COFR review of clearing competition, capital and risk impacts, Corporate Actions STP Phase 2 and infrastructure roadmap developments for Post-Trade services (in particular new technology opportunities and the eventual replacement of CHES).

The program is consistent with previous forward work program in that it has been developed around 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

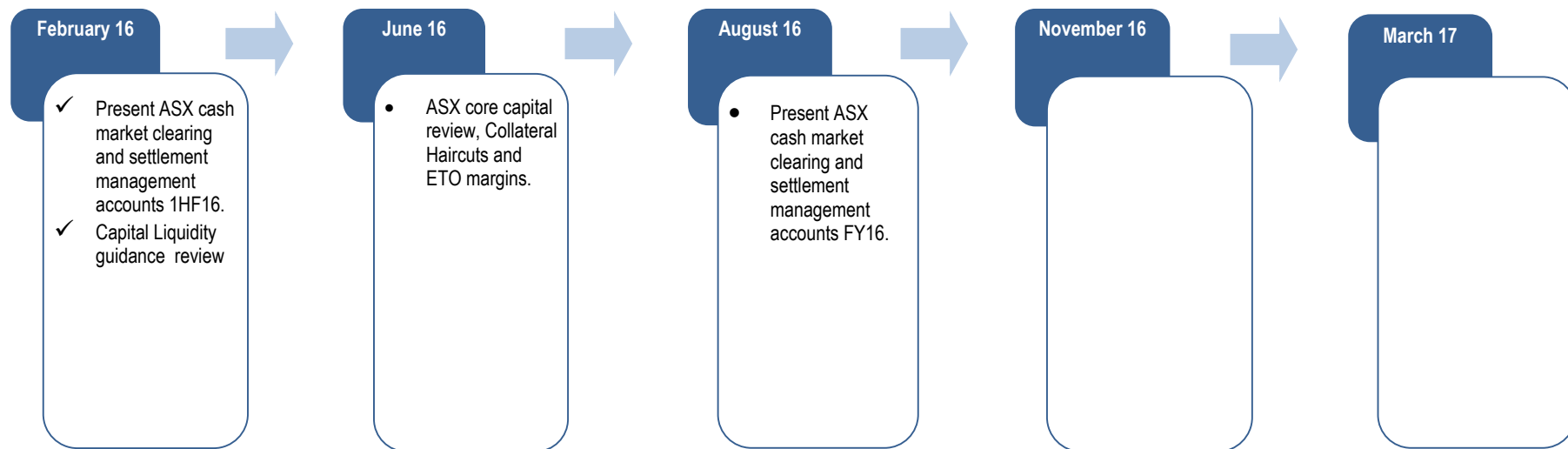
- Does the draft forward work program extending to March 2017 reflect industry priorities?
- Are there additional topics that could be considered for inclusion?

## ATTACHMENTS

Attachment A – Forward work program draft – February 2016 to March 2017.

Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
1. Capital Efficiency and industry economics	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. Minimum core capital requirements, Collateral Haircuts and ETO Initial Margins.	ASX will provide an overview and update on the minimum core capital consultation paper, changes being introduced to collateral haircuts and ETO margin enhancements to cover spread, liquidity and concentration risk.

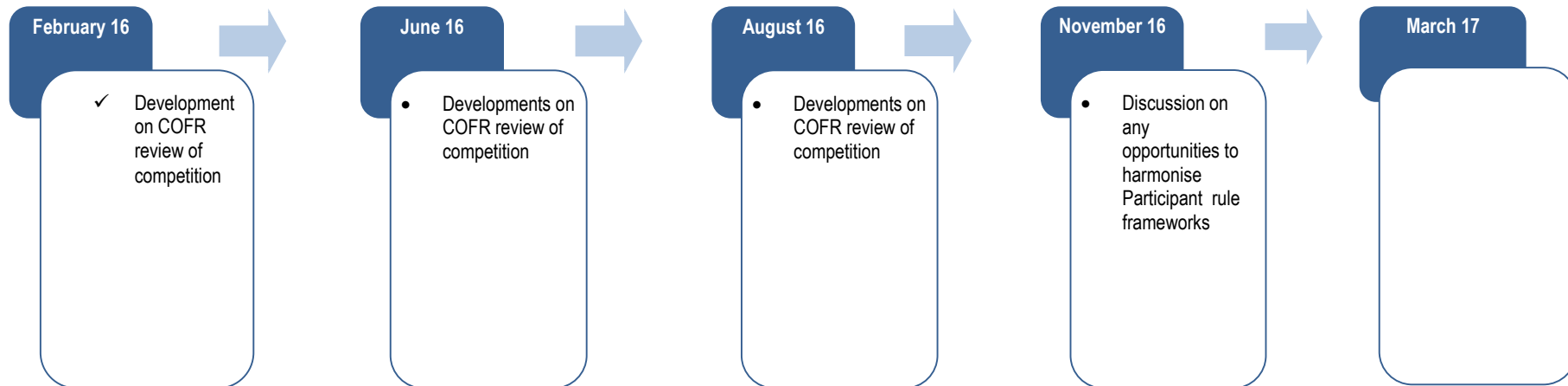
Timing for Business Committee Consideration of Topics



Theme	Objectives	Possible topics for	Description of topic
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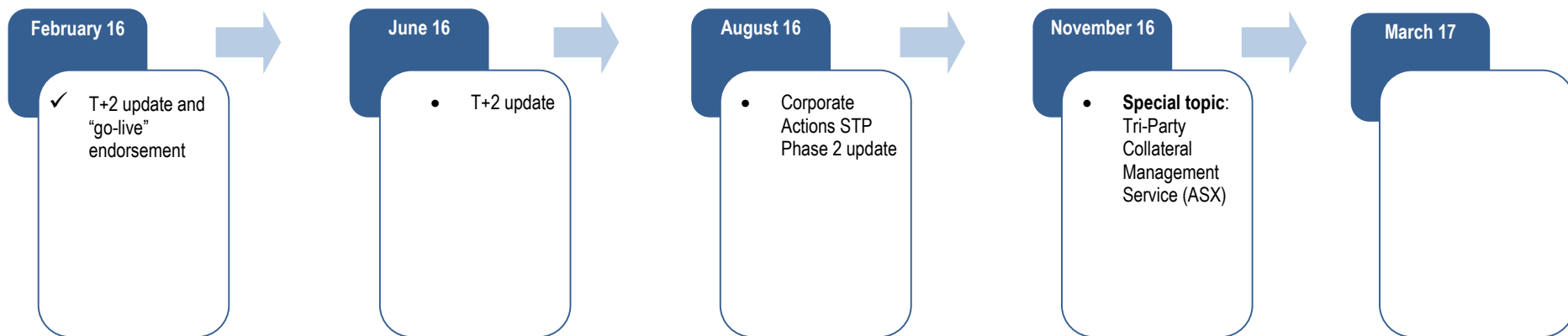
		discussion / agenda items	
<b>2. Participant Structure, Flexibility &amp; Efficiency</b>	To align ASX's participant access regime with its customers' evolving business models	a. Participant rule framework	ASX will continue to explore opportunities to harmonise and standardise the Operating Rules across markets and facilities as appropriate. ASX will continue to liaise with industry on key focus areas.
		b. Developments on COFR review of Clearing competition	ASX will update the Committee on any developments on the Council of Financial Regulators Review of Competition in Clearing Australian Cash Equities.

**Timing for Business Committee Consideration of Topics**



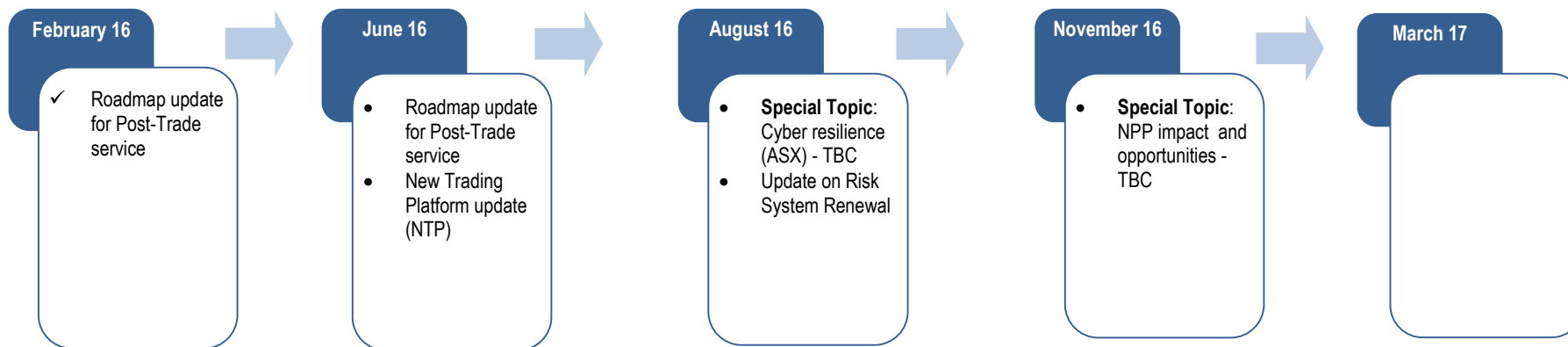
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>3. Service Innovation</b>	To deliver global best practice cash market clearing and settlement services	a. Updates on the implementation of T+2 settlement cycle	ASX will provide regular updates on the industry’s readiness to meet T+2 settlement by 1Q2016. The Committee will be provided with opportunities to provide feedback and endorsement where required.
		b. Corporate Action straight through processing – Phase 2	The ASX will present plans for future and continued enhancements in streamlined processes for corporate actions in context of CHES replacement plans. Principles which will deliver further streamlined process for the announcement, data capture and delivery (using ISO 20022) of corporate action information.

**Timing for Business Committee Consideration of Topics**



Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>4. Technology &amp; Infrastructure Enhancement</b>	To maintain and upgrade technology and infrastructure consistent with global standards	a. Roadmap for Post-Trade service infrastructure	ASX will provide an update on next steps following the recent announcement of ASX's intention to explore the use of distributed ledger technology (DLT) for CHESSE replacement.
		b. ASX Risk Systems Development	ASX will provide updates as required on the current Risk Systems development program.
		c. New Trading Platform (NTP) update	ASX will provide updates as required on the New Trading Platform replacement program.

**Timing for Business Committee Consideration of Topics**



## **BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5B**

<b>Topic</b>	<b>Minutes from 17 February 2016 meeting</b>
<b>Date of the Meeting</b>	15 June 2016
<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 17 February 2016 meeting.
<b>Action required</b>	To approve the minutes and report to the Forum from the 17 February 2016 meeting.

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Draft minutes and the draft report to the Forum from the 17 February 2016 Business Committee meeting were emailed to all members of the Business Committee on 26 February 2016 for comments by 4 March 2016.

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

The Business Committee minutes were signed by the Chair on 7 March 2016.

A copy of the minutes and report to the Forum from the 17 February 2016 meeting are provided in Attachments A and B.

### **ATTACHMENTS**

Attachment A – Minutes from the 17 February 2016 Meeting

Attachment B – Business Committee Report to the Forum from the 17 February 2016 Meeting



# MINUTES

## BUSINESS COMMITTEE MEETING

Date	Time	Location
Wednesday, 17 February 2016	12.00pm – 1.58pm	ASX Offices – Level 1, 20 Bridge Street, Sydney

Agenda Item	
1.	<p><b>Introduction</b></p> <p>Ms Blythe Masters, CEO of Digital Asset Holdings is the invited lunch guest – informal Q&amp;A session</p>
2.	<p><b>Service Performance</b></p> <ul style="list-style-type: none"> <li>a) Operating Performance Report</li> <li>b) November 2015 trade rejection review</li> </ul>
3.	<p><b>Management Accounts for Cash Market Clearing &amp; Settlement</b></p>
4.	<p><b>Business Matters</b></p> <ul style="list-style-type: none"> <li>a) Update on T+2 implementation</li> <li>b) Roadmap for post-trade service infrastructure</li> <li>c) Review of Trade Acceptance Service Legal Terms</li> </ul>
5.	<p><b>Regulatory Updates</b></p> <ul style="list-style-type: none"> <li>a) Council of Financial Regulators</li> <li>b) Liquidity Management and Capital Assessment</li> </ul>
6.	<p><b>Administration</b></p> <ul style="list-style-type: none"> <li>a) Forward work program updated</li> <li>b) Minutes from the 26 November 2015 meeting</li> <li>c) 2016 Forum and Business Committee meeting dates</li> <li>d) Other matters</li> </ul>

**NEXT MEETING:** Wednesday, 15 June 2016, commencing at 12:00pm.



Members		
Company	Name	Job Title
ABN AMRO Clearing	Mr Sean Lawrence	Managing Director
ANZ	Mr Andrew Koudrin (as delegate for Peter Mullin)	Head of Execution, Middle Office & Assurance
ASX	Mr Peter Hiom	Business Committee Chair Deputy CEO, ASX
Bank of America Merrill Lynch	Mr Anatoly Kirievsky	Head of Compliance
BNP Paribas	Mr Mark Wootton (as delegate for David Braga)	Acting Head of Clearing & Custody Services
Chi-X Australia	Mr Mike Aikins	Chief Operating Officer
Citi	Mr Miles O'Connor	Director, Direct Custody & Clearing Securities & Funds Services
Commonwealth Bank of Australia	Mr Sheridan Thompson	Head of Strategic Development, CommSec
Credit Suisse	Mr John Clifton (as delegate for Mr Andrew Farran)	Vice President Operations
Deutsche Bank AG	Mr Russell Deal	Chief Operating Officer
Goldman Sachs	Ms Yen Le (as delegate for Jeremy Follett)	Executive Director
HSBC	Mr Greg Wilkin (as delegate for Andrew Bastow)	Senior Manager - Service Delivery Direct Custody and Clearing HSBC Bank Australia.
J.P. Morgan	Mr Suneet Jain	Sales Business Manager, Markets & Investor Services
Macquarie Group	Mr James Indge	Cash Equities Business Manager
Morgans	Ms Sue Gye (as delegate for Peter Chisholm)	Manager Operations
Morgan Stanley	Mr Craig McGuire	Head of Operations
NSX	Mr Emlyn Scott	Chief Executive Officer
Pershing Securities	Mr Paul LeRoy (as delegate for Rob Forbes)	Chief Operating Officer
Stockbrokers Association of Australia	Mr Andrew Green	Chief Executive Officer
Sydney Stock Exchange Limited	Mr David Lawrence	Chief Operating Officer & Company Secretary
UBS	Mr Conor Foley	Chief Operating Officer





Apologies		
Company	Name	Job Title
Bell Potter Securities	Mr Dean Surkitt	Managing Director Retail
National Australia Bank	Mr Nathan Walsh	General Manager, Self-Directed Wealth Products & Markets
Patersons Securities	Ms Jane Irwin	Chief Executive Officer

ASX Management	
Name	Job Title
Ms Amanda Harkness	Group General Counsel & Company Secretary
Mr Tim Hogben	Group Executive, Operations
Ms Eloise Wett	Executive General Manager, Customer Experience
Mr Cliff Richards	General Manager, Equity Post Trade Services
Mr Stephen Hammon	General Manager, Finance
Mr Rodd Kingham	Senior Manager, Equity Post Trade Services
Mr Michael Bradwell	Senior Legal Counsel
Ms Diane Lewis	Senior Manager, Regulatory and Public Policy
Mr Colm Grace	Senior Manager Clearing Risk Policy (Item 5(b))

## AGENDA ITEM 1: LUNCH AND INFORMAL DISCUSSION

The Committee held an informal discussion over lunch with guest Blythe Masters CEO of Digital Asset Holdings.

At the conclusion of lunch and the informal discussion, the Chair commenced the formal part of the meeting by welcoming Committee Members and delegates.

The Chair formally opened the meeting at 1.00pm. Attendance for part of the meeting is noted in the attendees section.

## AGENDA ITEM 2: SERVICE PERFORMANCE

### a. Operating Performance Report

The Group Executive, Operations spoke to the agenda paper, noting that:

- CHES and TAS availability for the December quarter and up to the date of meeting has been 100%
- Total trades accepted was relatively flat. Slight increase in volume but reduction in value.
- NSX through the settlement service had an approximate 8% uplift in settlements and a slight increase in value
- Novating about 70% of all market activity (balance trade reports/crossings); netting consistent with previous reporting periods with 98% volume and 62% value netted down



- There were 6 settlement cut-off extensions in the previous quarter – 5 for 15 minutes and 1 for 60 minutes to accommodate Credit Suisse transfer of post trade administration to HSBC
- Cash market margining – one participant failed to meet the 10.30am cut-off due to technical reasons. Referral subsequently made to ASX Compliance.
- Since go-live (23 November) there have been no issues with Chi-X's warrants business through the clearing and settlement service
- Settlement fail rates up slightly (mainly due to stock lending challenges with Credit Suisse/HSBC transition) but number of settlements increased; fail rate still well below 1%

There were no questions on the metrics in the report.

The Group Executive, Operations noted the volatility in financial markets in early January and that ASX has looked at impact it had on the post trade environment. Any margin called by ASX had been met.

The Group Executive, Operations reported that in March ASX will be releasing guidance about the situations in which ASX will open and close the market intra-day and after such a closure will issue information about how ASX got to that decision.

The Group Executive, Operations also reported that ASX will be seeking input from members in March via a Consultation Paper regarding the determination of "non-settlement days" by ASX and whether it is still appropriate to determine "non-settlement days" on days when Victoria or NSW have a public holiday. A Member queried whether the starting point was that non-settlement days would no longer be determined if trading occurred on those days. ASX agreed this was the starting point but was open to rationale arguing for maintaining the current policy.

The Group Executive, Operations also reported that ASX is seeking feedback from Members on conditional corporate actions in the takeover process that would incentivise accepting into the bid.

#### **b. November 2015 trade rejection review**

The Group Executive, Operations spoke to the agenda paper and noted some of the factors that gave rise to the trade rejection issue. It was also reported that all of the agreed actions determined following the internal review had been implemented.

There were no questions or comments from Members on this item.

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

The General Manager, Finance spoke to the paper.

The Chair noted that it was ASX's intention to reduce clearing fees charged by ASX by 10% from 1 July 2016.

There were no questions or comments on this item.



## AGENDA ITEM 4: BUSINESS MATTERS

### a. Update on T+2 implementation

ASX's Senior Manager, Equity Post Trade Services reported that the purpose of this item was to provide an update to the Committee on the implementation of T+2 settlement and seek endorsement of ASX's recommendation to proceed to T+2 go-live, noting that:

- Regulatory clearance of ASX T+2 rule amendments has been obtained.
- All development and end to end testing is complete within ASX.
- ASX internal risk reviews are complete.
- Implementation plan has been finalised and is ready to be communicated.
- Market Implementation Group webinar is being held on 18 February 2016 to confirm implementation.
- A rollback plan is in place to go to the backup weekend if required on the implementation weekend.
- Implementation by ASX will begin on the morning of Saturday 5 March 2016. 3pm on Saturday 5 March 2016 is the expected latest time that ASX would confirm going ahead.
- AFMA wholesale bond market is going ahead with T+2 on 7 March 2016.
- Market operators had confirmed their readiness for T+2.
- 100% of vendors and brokers had attested to their operational and technical readiness for T+2.
- Met recently with ASIC and RBA and they had not expressed any concerns regarding go-live.

A Member queried whether NZX were ready to move to T+2. The Senior Manager, Equity Post Trade Services reported that NZX are on track for 7 March but are seeking attestations by 29 February 2016 and so have not confirmed go-live at this stage. In response to a question from a Member it was reported that ASX intended to proceed with transition to T+2 settlement on 7 March 2016 even if NZX did not proceed on that date. It was reported that NZX have indicated that if ASX were to defer transition they would also defer transition. A Member commented that they thought that for dual listed companies in Australia and New Zealand that there could be expected to be a significant increase in settlement fails if the settlement cycles did not transition at the same time. There was also a discussion regarding the limited time period between CHES batch settlement and the NZX second batch. It was agreed that ASX would find out what the latest time on the weekend prior to implementation NZX would announce if they were not going to proceed to T+2 so that ASX could notify participants if that were to occur. **[AGREED ACTION 1]**

The Chair thanked Members for their efforts in achieving the attestations.

The Members were queried as to whether anyone was not confident or comfortable about the decision to go-live on 7 March 2016 and no Members expressed any such concerns. On that basis it was reported that ASX would proceed with the next steps for implementation noting that a market notice was ready, website changes were ready, call centre resourcing had been updated and all the checkpoint calls will continue.

There were no further questions or comments from Members.

The Chair thanked Members and the Senior Manager, Equity Post Trade Services for their efforts on this initiative.



#### **b. Roadmap for post-trade service infrastructure**

The General Manager, Equity Post Trade Services spoke to the agenda item including reporting on ASX's objectives for the next 6 months. This includes building a multi-function team sourced mainly from subject matter experts within ASX to assist Digital Asset Holdings with matters unique to the Australian environment. It was noted that an agile approach to the software development would be used. The objectives of the next six months include exploring non-functional requirements such as security, scalability, privacy, redundancy and resilience of the technology. The second category of objectives is finding out whether it meets functional requirements. The third objective is stakeholder engagement.

The General Manager, Equity Post Trade Services also reported that there would be two streams to the work being undertaken, including making sure that the technology can clear and settle as well as CHES does. The second stream would be to see if the technology could do other things such as take through identity information. After the first six months if there are positive answers about meeting the requirements ASX would then go into a period of making a decision and a recommendation to its Board who would decide whether to endorse the decision to use the technology to replace CHES. The Chair noted that the timing of this last part would be some way off.

It was reported that ASX has engaged with the regulators and that ASX would be meeting with the regulators again in the week commencing 22 February 2016.

A Member queried when Members would be able to look at the technology. It was reported that this would be in 2-3 months' time.

A Member noted that for their budgetary purposes they would like to know by June 2017 if ASX was going to proceed with the use of distributed ledger technology in place of CHES. It was reported that ASX did not anticipate that it would have a full proposal on this until the end of FY2017.

The Chair advised that if Members had any further questions these should be directed to the General Manager, Equity Post Trade Services.

#### **c. Review of Trade Acceptance Service Legal Terms**

The meeting noted the agenda item.

### **AGENDA ITEM 5: REGULATORY UPDATES**

#### **a. Council of Financial Regulators**

The Chair noted that ASX had no further information on this item at this time. A Member questioned what the timeframe was for the review. The Chair responded that this was not known. A Member questioned who the review was currently with. The Chair reported that it was with the Government.

#### **b. Liquidity Management and Capital Assessment**

The Chair introduced the Senior Manager, Clearing Risk Policy who spoke to the agenda item. The Senior Manager, Clearing Risk Policy reported that ASX was planning to issue a consultation paper by the end of the week in respect of a proposed guidance note on liquidity management and capital. The Senior



Manager, Clearing Risk Policy also reported on the specific objectives of the minimum liquidity requirement and keys to achieve those objectives. The Senior Manager, Clearing Risk Policy reported that:

- The guidance note would specify what is required, in relation to liquidity management, for compliance with ASX Clear Operating Rule 3.5.1.
- The aim of the guidance note is to strengthen controls to reduce the risk of default.
- There had been broad agreement of the proposal at the ASX Clear Risk Consultative Committee.
- There will be a 2 month consultation period in which ASX is seeking feedback and that once the guidance note had been issued (in Q3 2016) there would be a 6 month window in which to comply with it.

There were no questions or comments on this item.

#### **AGENDA ITEM 6: ADMINISTRATION**

##### **a. Forward work program updated**

The Chair spoke to the agenda item and requested that if Members had any topics that they wanted added to the program they should speak to the Senior Manager, Equity Post Trade Services.

##### **b. Minutes from the 26 November 2015 meeting**

The Chair noted the minutes from the 26 November 2015 meeting. As there were no comments, the Chair noted that the minutes were approved.

##### **c. Proposed 2016 Forum and Business Committee meeting dates**

The Chair spoke to the agenda paper.

There were no questions or comments on this item.

##### **d. Other matters**

There were no other matters.

The Chair thanked Andrew Green of Stockbrokers Association of Australia and Mike Aikins of Chi-X, for attending their first meeting.

#### **NEXT MEETING**

The next meeting will be held at 12pm on Wednesday, 15 June 2016.

As there was no further business discussed, the meeting closed at 1.58pm.

Signed as a correct record of the meeting.

A handwritten signature in black ink, appearing to be 'K. Green', written over a horizontal line.

Chairman

A handwritten date '7/3/16' in black ink, written over a horizontal line.

Date



# BUSINESS COMMITTEE REPORT TO THE FORUM

## BUSINESS COMMITTEE MEETING

At its 17 February 2016 meeting, the Business Committee was updated on:

- Industry readiness for implementation of a T+2 settlement cycle and ASX's decision to go-live with T+2 on 7 March 2016;
- The cash market clearing and settlement management income statements for the half year ended 31 December 2015;
- The next stages of ASX's exploration of the possible use of distributed ledger technology for CHES replacement; and
- ASX's intention to issue a consultation paper on a guidance note regarding liquidity management for clearing participants.

## KEY RECOMMENDATIONS

There were no recommendations arising from the meeting.

## KEY ISSUES DISCUSSED

- Industry readiness for T+2 settlement and ASX's decision to go-live on 7 March 2016. Attestations as to operational and technical readiness had been received from 100% of vendors and brokers. Interaction with NZX transition to T+2.
- ASX's exploration of the possible use of distributed ledger technology for CHES replacement including timing of the stages and engagement with the industry.

## AGREED ACTIONS

1. ASX to find out from NZX what was the latest time they would be announcing on the weekend prior to T+2 go-live if they would not be proceeding with go-live.