



MINUTES

BUSINESS COMMITTEE MEETING

| Date | Time | Location |
|----------------------------|-----------------|---|
| Thursday , 1 December 2016 | 4.00pm – 5.35pm | ASX offices – Level 1, 20 Bridge Street, Sydney |

| Agenda Item |
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| 1. Introduction |
| 2. Service Performance Operating Performance Report |
| 3. Business Matters a) Roadmap for post-trade service infrastructure |
| 4. Regulatory Updates a) Minimum Core Capital requirement, Collateral Haircuts and ETO Initial Margins b) Updated Code of Practice |
| 5. Administration a) Forward work program updated b) Minutes from the 31 August 2016 meeting c) Proposed 2017 Business Committee Meeting Dates d) Other matters |
| 6. Next Meeting The next meeting of the Business Committee is scheduled for Thursday 2 March 2017. |

NEXT MEETING: Thursday 2 March 2017



| Members | | |
|---------------------------------------|---|---|
| Company | Name | Job Title |
| ANZ | Mr Andrew Kourdin (as delegate for Peter Mullin) | Head of Execution Assurance and Middle Office |
| ASX | Mr Peter Hiom | Business Committee Chair Deputy CEO, ASX |
| Bank of America Merrill Lynch | Mr Rhys Cahill | Global Markets COO |
| BNP Paribas | Mr Luc Renard | Head of Clearing & Custody |
| 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 |
| Goldman Sachs | Mr Jeremy Follett | Executive Director Operations |
| HSBC | Mr Peter Snodgrass | Head of Direct Custody and Clearing |
| J.P. Morgan | Mr Suneet Jain | Sales Business Manager, Markets & Investor Services |
| Macquarie Group | Mr James Indge | Cash Equities Business Manager |
| Morgans | Mr Peter Chisholm | Chief Operating Officer |
| Morgan Stanley | Mr Craig McGuire | Head of Operations |
| National Australia Bank | Mr Greg Bowrey (by telephone) (as delegate for Nathan Walsh) | General Manager, Self-Directed Wealth Products & Markets |
| NSX | John Williams (delegate for Ann Bowering) | Managing Director |
| Stockbrokers Association of Australia | Mr Andrew Green | Chief Executive Officer |
| UBS | Mr Conor Foley | Chief Operating Officer |



| Apologies | | |
|-------------------------------|--|---|
| Company | Name | Job Title |
| ABN AMRO Clearing | Mr Sean Lawrence | Managing Director |
| Bell Potter Securities | Mr Dean Surkitt | Managing Director Retail |
| Credit Suisse | Mr Matthew Gallagher (as delegate for Andrew Farran) | Head of Operations |
| Deutsche Bank AG | Mr Geoffrey Plaisted | Chief Operating Officer, Equities |
| Pershing Securities | Mr Rob Forbes | Chief Executive Officer |
| Sydney Stock Exchange Limited | Mr David Lawrence | Chief Operating Officer & Company Secretary |

| ASX Management | |
|---------------------|---|
| Name | Job Title |
| Ms Amanda Harkness | Group General Counsel & Company Secretary |
| Mr Tim Hogben | Group Executive, Operations |
| Mr Alan Bardwell | Chief Risk Officer |
| Ms Eloise Wett | Executive General Manager, Customer Experience |
| Mr Cliff Richards | General Manager, Equity Post Trade Services |
| Ms Diane Lewis | Senior Manager, Regulatory and Public Policy |
| Mr Gary Hobourn | Senior Economic Analyst, Regulatory and Public Policy |
| Mr Rodd Kingham | Senior Manager, Equity Post Trade Services |
| Mr Michael Bradwell | Senior Legal Counsel |



AGENDA ITEM 1: INTRODUCTION

The Chair formally opened the meeting at 4pm. Some of the Agenda items were considered out of order. For convenience, they are recorded in the order set out in the Agenda.

The Chair welcomed Members and delegates and noted the apologies. The Chair noted changes of representatives of two Members.

AGENDA ITEM 2: SERVICE PERFORMANCE

a. Operating Performance Report

The ASX Group Executive, Operations spoke to the agenda paper noting that the statistics in the paper for the December 2016 quarter are for the period to 31 October 2016 only. The Group Executive, Operations noted the following metrics including:

- Availability for CHES and TAS was 100%
- Trading on ASX and NSX was slightly down on the previous quarter, trading on Chi-X was in line with the previous quarter and trading on SSX was slightly up
- Netting efficiency was high on volume 99% and value 60%
- Fail rates in November slightly heightened but still very low given the size of the settlement batch, this was partially attributable to two days trading settling on one day (due to Melbourne Cup) and some corporate actions

The Group Executive, Operations reported that technical issues at participants had resulted in the batch settlement time being extended on 4 separate occasions (twice for 15 minutes and twice for 30 minutes). It was specifically noted in relation to the two 30 minute extensions that it is a serious matter to extend settlement however the participants involved contributed significant volume and value into the settlement batch and their failure to participate would have significant impact on overall settlement performance.

The Group Executive, Operations also reported to the Committee the market activity and settlement performance that arose from the announcement of the results of the US election. It was reported that there was higher than usual volatility in both the equity and derivative markets but the system continued to operate normally and without disruption. Of specific note was the record equity trade volume, no trade cancellations, no delays in receiving the additional margin called and that fail rates remained low. Fail rate was 0.4%. The Group Executive, Operations thanked the Committee for their efforts in achieving the high levels of settlement performance throughout the period.

The Chair invited the ASX Executive General Manager, Customer Experience to speak to the Committee in relation to the ASX Trade outage that occurred on 19 September 2016. The Executive General Manager, Customer Experience reported in relation to the actions being taken since the outage and the learnings from the outage including in relation to technology, communications and market management. It was reported that in relation to technology ASX has reviewed the cause of the outage in conjunction with its vendors and has introduced tools allowing early identification of issues and faster resolution together with diagnostics to decide when the market is ready to reopen. ASX is reviewing the feedback received in relation to communications from ASX during the outage, including in relation to the breadth of distribution within recipients and having a single source of information from ASX. It was also reported that ASX is reviewing feedback in relation to the reopening of the market in groups as is current market practice and



will be consulting if changes are proposed to this or other market practices. A Member noted their objection to the cancellation of trades 24 hours after the outage and that the cancellation put them in breach of regulatory obligations.

AGENDA ITEM 3: BUSINESS MATTERS

a. Roadmap for post-trade service infrastructure

The Chair thanked Members for their responses to the recent Consultation Paper: “ASX’s Replacement of CHESSE for Equity Post-Trade Services: Business Requirements”. The Chair noted that this consultation is only the beginning of the consultation process and that there will be further opportunities for key industry stakeholders to provide input on functional and non-functional requirements for the CHESSE replacement project over the next 12 months and beyond.

The ASX General Manager, Equity Post Trade Services spoke to the paper and noted key components of the project including stakeholder engagement, business requirements of the solution, messaging standards and the software system build. Stakeholder engagement will include a response to consultation in February 2017, bilateral discussions and industry workshops and similar communication channels to those used during the T+2 project to educate stakeholders on key topics and keep them informed of the progress in consideration of key issues during the life of the project. One member commented that his organisation had found the information session on Distributed Ledger Technology particularly useful.

It was noted that invitations would shortly be sent to those that had made written submissions, to participate in workshops ahead of the holidays to further elaborate on, and confirm, ASX’s understanding of consultation feedback and stakeholder priorities.

A particular theme that came out in submissions was a strong desire from Participants for greater functional enhancement from ‘Day 1’ with the replacement of CHESSE, for example, with corporate action and transfer and conversion processes being enhanced to deliver significant upfront process efficiencies.

The Group Executive, Operations noted the Committee’s earlier endorsement of the use of global messaging standards and reported in relation to the work streams that had been progressed to investigate the use of such standard. This would ensure that the standards would be consistent with those being pursued in other international jurisdictions and within Australia under the New Payments Platform. The preliminary gap analysis between current CHESSE messages and equivalent ISO20022 messages indicated that approximately 120 ISO20022 messages could replace around 500 CHESSE messages while retaining, and expanding, service functionality given the ability to include enhanced logic within the new message format.

It was noted that the first of a planned monthly schedule of meetings of the Technical Committee is to be held on 13 December. Members can decide which representatives from their organisation are most appropriate to attend Technical Committee meetings and those best placed to participate would need to have a deep understanding of CHESSE messaging and the associated business processes, and may also have some knowledge of the ISO message standards. The Group Executive, Operations responded to questions and confirmed that a report from the Technical Committee, including minutes of the meeting, would be provided to the Business Committee.

The General Manager, Equity Post Trade Services reported that the software build to be delivered towards the end of 2017 is not intended to replicate the full suite of existing CHESSE services or incorporate any new enhanced services but will instead be used to test the technology’s capability, reliability and scalability to



inform the decision on the technology and the vendor. An important feature of any new clearing and settlement system will be to facilitate future service changes in a timely and cost-effective manner.

The high level timeline in the agenda paper outlined that the exploration of the full business requirements for the CHES replacement project will continue alongside and beyond the timeline set out for the decision of the technology to be employed. The work on those business requirements will still be relevant and usable even if a decision not to proceed with distributed ledger technology was taken in 2017.

The meeting discussed the role of the industry workshops (including those to be held prior to the holidays) and it was noted that while they will discuss substantive matters they are not generally intended to be decision making bodies or to make recommendations but rather to confirm with those providing responses their feedback in the written consultation process. It was agreed that any material matters raised at workshops would be minuted and reported to the Business Committee. **[Matter Arising 1]**

The Committee discussed the frequency of Business Committee meetings following a request for more (possibly monthly) meetings and it was agreed that ASX would prepare a more detailed 2017 forward work program for the next meeting and, as part of that, would look to hold additional, and/or extended, meetings at points in the process that are aligned with key project milestones. This would be reviewed as work progressed. There would also be the flexibility, if appropriate, to focus the agendas of particular meetings entirely to CHES replacement. **[Matter Arising 2]**

Some Members expressed concerns that ASX's focus to-date appeared to be on the technology solution rather than the exploration of the opportunities to use this once in a generation project to enhance existing arrangements to deliver significantly superior functionally that would offer substantial process efficiencies for users. Some Members felt that they had not been provided adequate opportunities to date to provide meaningful input to the process.

A member asked about the timeline and process for making a decision on CHES replacement. The Chair noted that a decision on whether to proceed with Distributed Ledger Technology is due in December 2017 but he reiterated that the door is just opening on the opportunity for users to have effective input to the business requirements that will underpin the replacement of CHES.

He confirmed the Business Committee was the key forum for market participants and other market operators to provide input in to ASX's governance and decision making process regarding the replacement of CHES. The Boards of ASX Clear and ASX Settlement must respond in writing to any recommendations from the Business Committee, this written response must include an explanation if any recommendations had not been followed. The Chair noted that regulators will also be regularly monitoring the processes and outcomes of the project.

In response to a Member's question on the nature of engagement with other stakeholder groups (such as share registries and technology vendors), including whether it may be appropriate to broaden the membership of the Business Committee, the Chair indicated that ASX is currently considering the most appropriate mechanisms to engage with those stakeholder groups.

There was some discussion on why the interests of other stakeholders needed to be considered. Under Agenda Item 4(b) there was a further discussion of what priority ASX should give to the views and interests of different user groups in developing the business requirements for the replacement of CHES.

For future meetings of the Business Committee, it was agreed that sufficient time would be allocated at each meeting to allow for an informed and involved discussion on CHES replacement following a request



from Members. It was agreed that the length of the next meeting be extended to focus on a discussion of the industry's vision and priorities for CHES replacement. A member indicated that the industry does not want a 'like-for-like' CHES replacement. ASX also confirmed that the Charter for the Business Committee will be revised to reflect the updated Code of Practice and that the revised Charter will be provided to the next meeting. **[Matter Arising 3]**

Some Members asked if it was possible to bring forward the date of the next meeting to February and ASX agreed to examine the feasibility of convening an earlier meeting. **[Matter Arising 4]**

A Member noted favourably a recent consultation document issued by the Hong Kong Exchanges Group in respect of a planned comprehensive upgrade of its post trade infrastructure and requested that ASX consider that consultation document as a possible template to facilitate further industry input. It was agreed ASX would examine the Hong Kong document along with looking at other markets for examples of other engagement mechanisms for eliciting user input to the project. **[Matter Arising 5]**

AGENDA ITEM 4: REGULATORY UPDATES

a. Minimum Core Capital requirement, Collateral Haircuts and ETO Initial Margins

The ASX Chief Risk Officer spoke to the agenda paper and reported in relation to ASX's consultation on the proposed changes to the minimum core capital requirements (MCCR) noting the responses received were neutral to broadly supportive while responses from some smaller brokers were less favourable. The Chief Risk Officer reported in relation to some of the key messages from that feedback and reported that the revised MCCR Rules and associated documents reflecting feedback received would be released for market consultation in early 2017.

The Chief Risk Officer reported that the methodology changes for collateral haircuts had been implemented which resulted in the margin requirement falling and as a consequence the value of excess collateral held increasing by \$350m.

The Chief Risk Officer also reported that the spread changes had just been implemented and that the final implementation of liquidity and concentration multipliers is expected to be in Q3 2017.

b. Updated Code of Practice

In the course of discussing the agenda item on CHES replacement (see above), the meeting discussed the updated Code of Practice and some Members expressed concerns about the wording of the updated Code of Practice, including around ensuring that the concept of "users" of ASX's cash equities clearing and settlement services is aligned with the definition of users in the Council of Financial Regulator's Regulatory Expectations.

Two members requested that the ASX Code be redrafted to reflect the exact words used by CFR to avoid ambiguity. This included terminology related to 'users'; 'governance processes that enable users provide input on the setting of the investment strategy', and the 'comply or explain' obligation on the relevant ASX Boards. Some Members expressed the view that 'users' should primarily refer to clearing and settlement participants and that broader references in the Code of Practice for the need for post trade infrastructure to continue to meet the needs of the market was of concern. One member expressed the view that the interests of the users represented by the Business Committee should be given the highest priority by ASX. Another member questioned why the interests of stakeholders other than clearing and settlement participants should be considered.



The Senior Manager, Regulatory and Public Policy noted that ASX will be assessed against CFR's regulatory expectations and the terminology used in the Code of Practice does not affect those obligations. She also noted that under the Regulatory Expectations users are broadly defined to include 'participants of the ASX CS facilities; end users; unaffiliated market operators, central counterparties and settlement facilities, technology service providers; and other relevant stakeholders'.

ASX undertook to review the wording of the updated Code of Practice to reaffirm that it is aligned with the Regulatory Expectations and set out who are the other relevant stakeholders in response to the comments made during the discussion. [Matter Arising 6]

AGENDA ITEM 5: ADMINISTRATION

a. Forward work program updated

The meeting noted the forward work program. The Chair noted that the forward work program would be updated to incorporate CHES replacement activities.

b. Minutes from the 31 August 2016 meeting

The Chair noted the minutes from the 31 August 2016 meeting and invited comments. As there were no comments, the Chair noted that the minutes were approved.

c. Proposed 2017 Business Committee meeting dates

It was agreed that the proposed 2017 meeting dates would be reviewed with regard to the possibility of bringing forward the March meeting and including additional meetings.

d. Other matters

The Chair noted that there would be an informal presentation by Adrian Lovney, the CEO of the National Payments Platform, immediately following the meeting.

The Chair thanked Members for their participation and contributions to the Committee during the year, and wished everyone a happy holiday over the festive season.

NEXT MEETING

The next meeting is scheduled to be held on Thursday, 2 March 2017 (which may be subject to change if an earlier date was found to be feasible).

As there was no further business discussed, the meeting closed at 5.35pm.

Signed as a correct record of the meeting.

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

Chairman

A handwritten date '6/3/2017' in black ink, written over a horizontal line.

Date