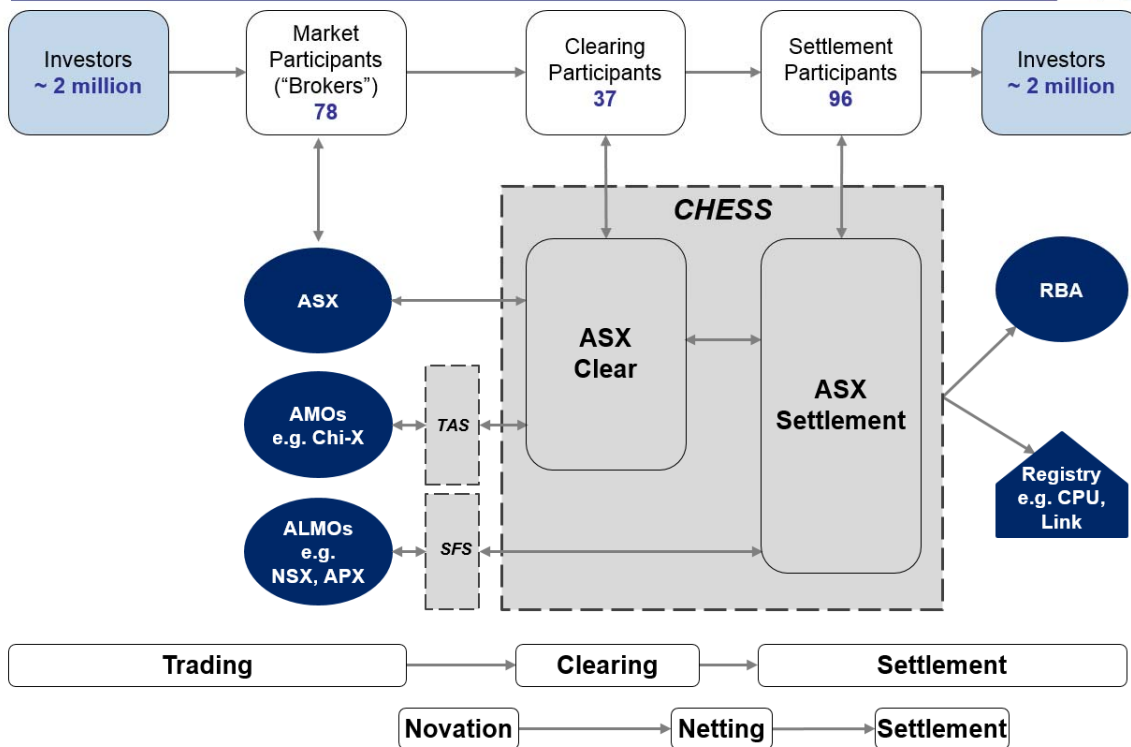


# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 2A

Topic	Report on the operational performance of cash market clearing and settlement services
Date of the Meeting	17 February 2016
Purpose of this paper	To report on key performance metrics for ASX's clearing and settlement services.
Action required	To note the agenda paper.

## BACKGROUND

### Market structure overview



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

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

## Novation

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

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

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

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

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

## Netting

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

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

## Settlement

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

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

## Service availability

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

For the December 2015 quarter, the average monthly system availability was 100% for CHES. The average monthly availability of CHES has been 99.99% between November 2011 and December 2015.

## Trade Acceptance Service

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

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

For the December 2015 quarter the average monthly system availability was 100% for the TAS. The average monthly availability of the TAS has been 99.99% between November 2011 and December 2015 (which is the same as CHES).

On 18 November a change in Clearing PID resulted in the TAS incorrectly rejecting 1,396 Trade Registration Requests which prevented the trades from being scheduled for settlement in CHES. The rejection occurred as the Approved Market Operator (AMO) Clearing PID table in CHES was not updated to include the new Clearing PID to support clearing for the impacted participant. Once the PID table was updated, a fix was applied to replay the messages to flow through successfully that day.

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

The key metrics noted above on novation, netting efficiency and settlement efficiency for the December 2015 quarter are reported in Attachment A. They are also supported by charts demonstrating a longer reporting period in Attachment B.

## **ATTACHMENTS**

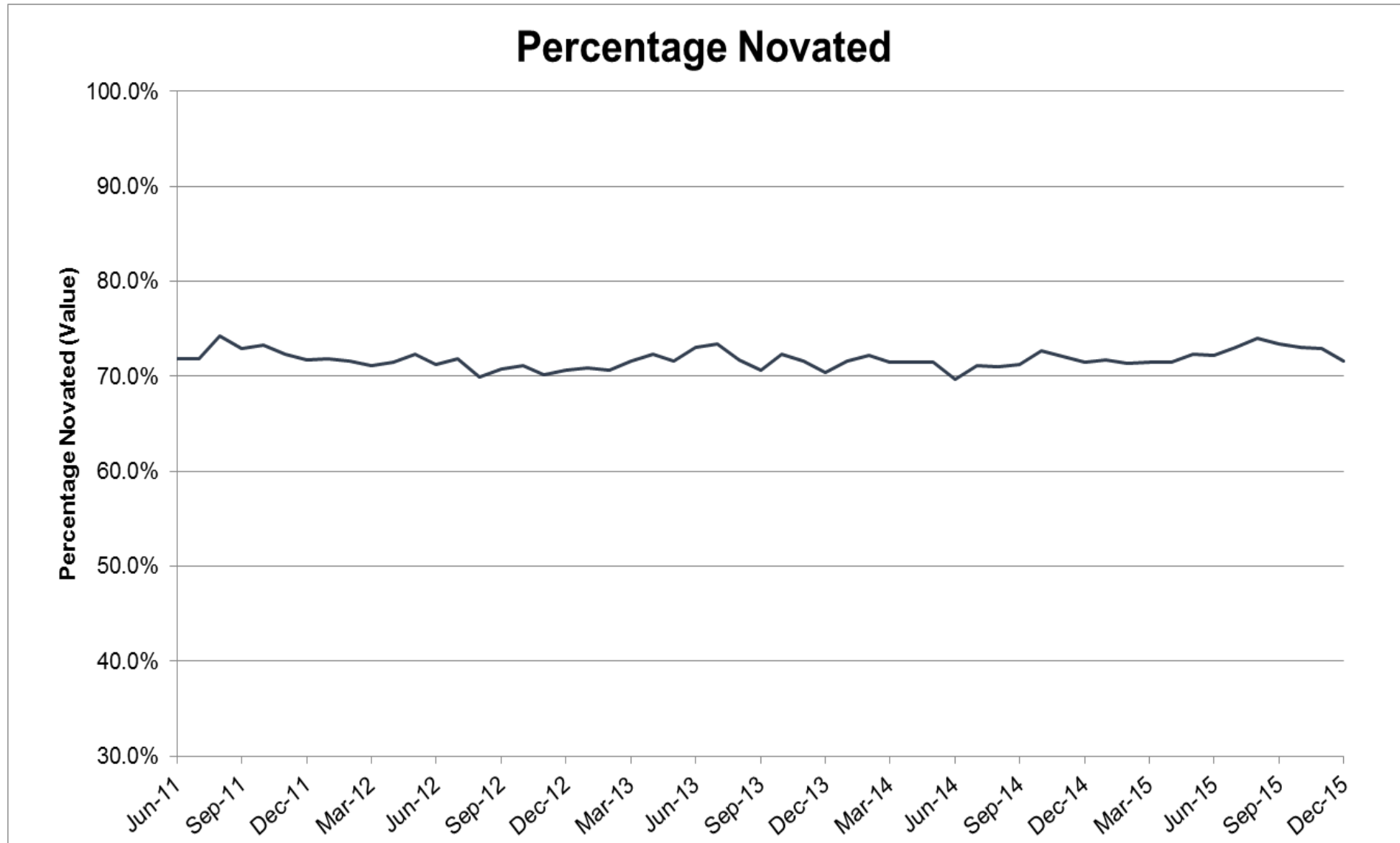
Attachment A – Summary Metrics Relating to the Performance of ASX'S Clearing and Settlement Services

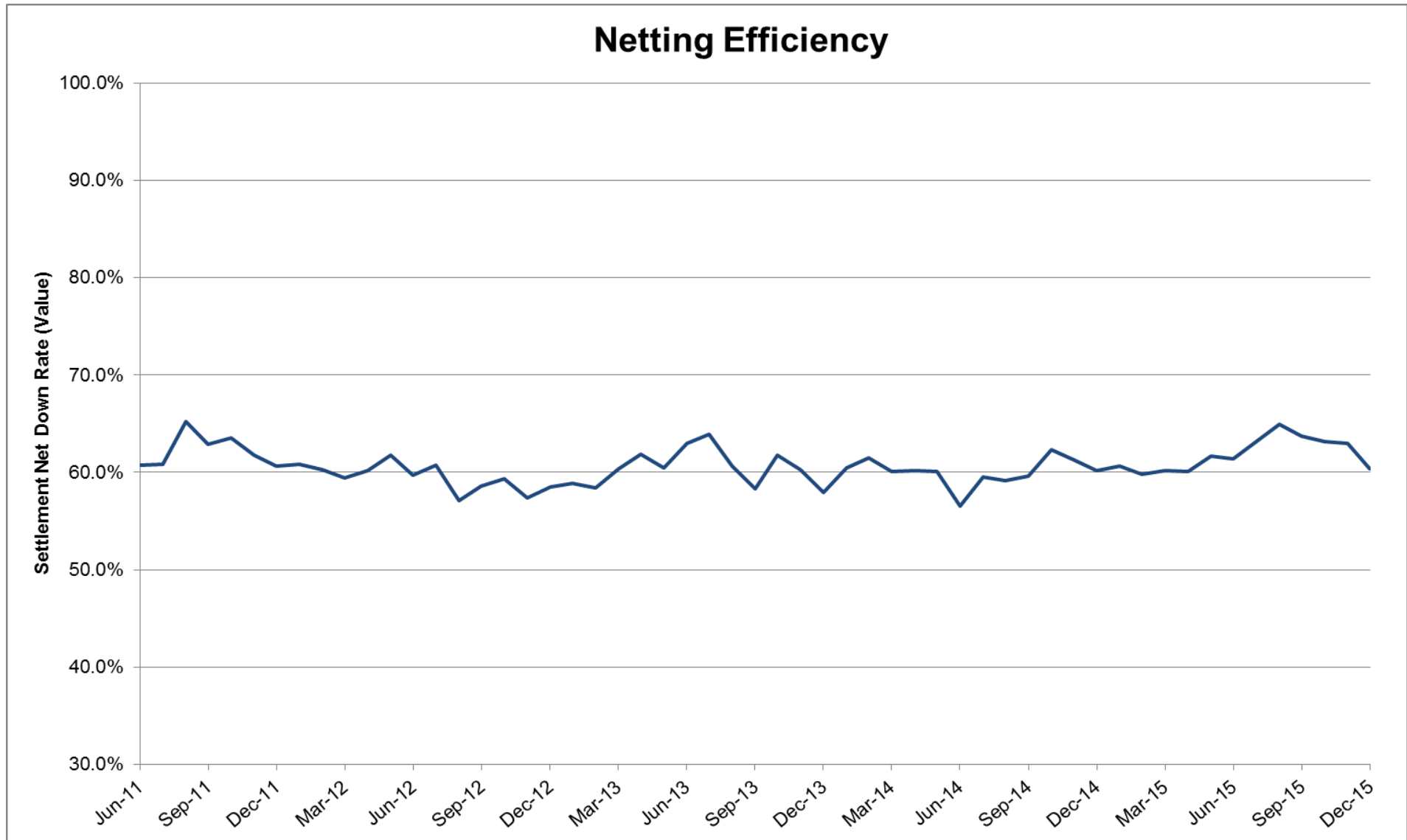
Attachment B – Performance of ASX'S Clearing and Settlement Services from September 2011 to December 2015

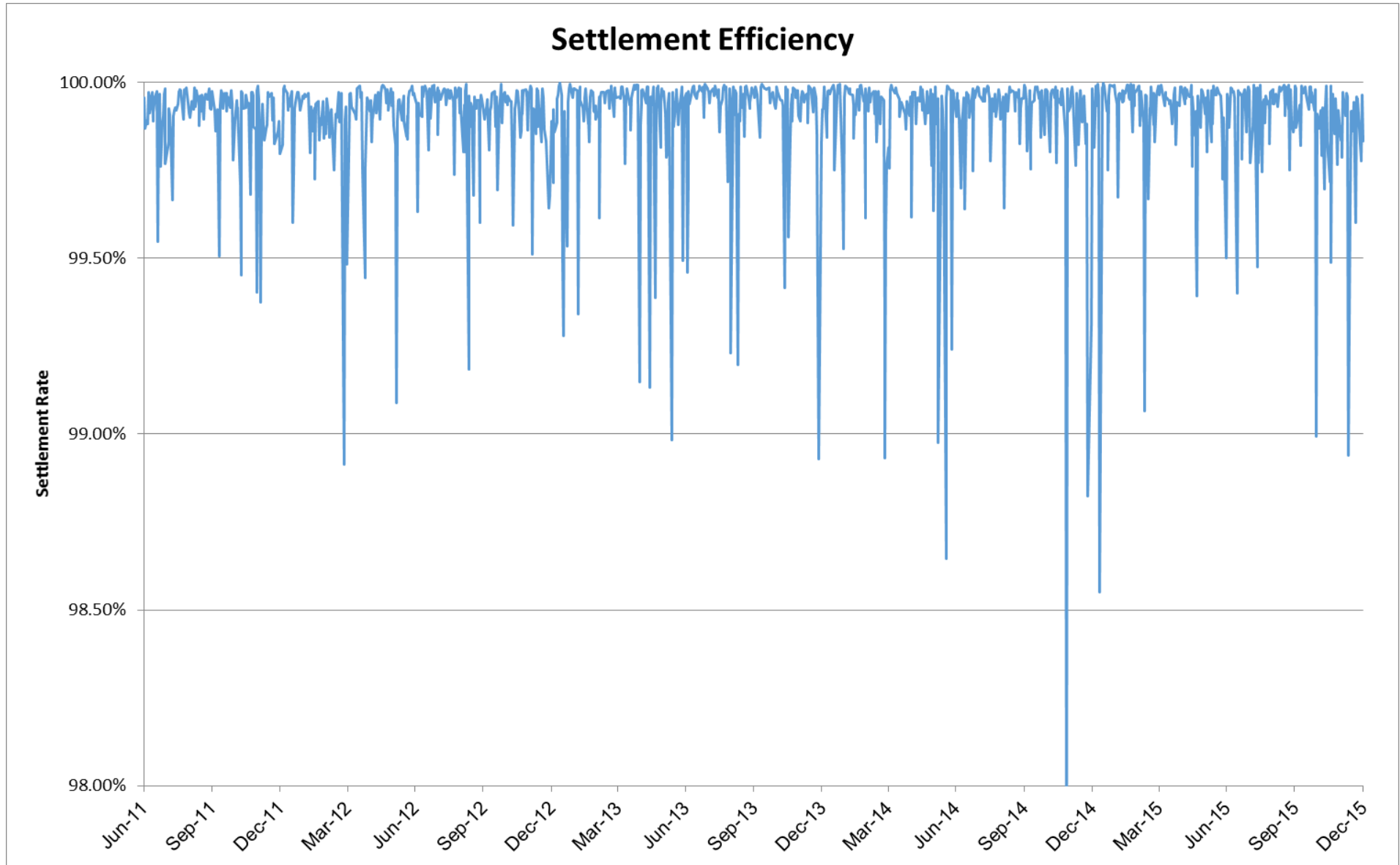
**ATTACHMENT A – SUMMARY METRICS RELATING TO THE PERFORMANCE OF ASX’S CLEARING AND SETTLEMENT SERVICES**

	December 2015 Quarter	September 2015 Quarter
System Availability (CHES)	100%	100%
System Availability (TAS)	100%	100%
Total Trades Accepted (ASX)	58,341,453	55,433,105
Total Trades Accepted (Chi-X)	14,533,020	16,003,469
Total Trades Rejected (ASX)	16	8
Total Trades Rejected (Chi-X)	1,396	0
Total Settlements (SSX)	0	0
Total Value of Settlements (SSX)	0	0
Total Settlements (NSX)	312	287
Total Value of Settlements (NSX)	\$964,000	\$935,000
Daily Average Traded Value (On and Off Market)	\$6.1 billion	\$6.5 billion
Daily Average Cleared Value	\$4.4 billion	\$4.8 billion
Percentage Novated	72.6%	73.5%
Daily Average Cleared Value Post-Netting	\$1.66 billion	\$1.7 billion
Netting Efficiency	62.2%	63.9 %
Daily Average Settled Value (Including Non-Novated)	\$9.3 billion	\$9.1 billion
Settlement Efficiency	99.86%	99.91%

ATTACHMENT B – PERFORMANCE OF ASX'S CLEARING AND SETTLEMENT SERVICES FROM SEPTEMBER 2011 TO DECEMBER 2015







## BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 2B

<b>Topic</b>	CHES participant ID mapping process improvements
<b>Date of the Meeting</b>	17 February 2016
<b>Purpose of this paper</b>	Update the Business Committee on the actions agreed subsequent to the incorrect scheduling of settlements and rejection of trades for settlement as a result of a participant business model change in November 2015.
<b>Action Required</b>	For information. To note the agenda paper.

---

### BACKGROUND

A participant requested a new (replacement) participant ID (PID) to facilitate the outsourcing of their post-trade functions to a third party. Two issues arose during the transition process. The issues relate to the participant mapping in CHES, which enables trade data from all market operators to flow to the correct PID for clearing and settlement.

### ISSUES

1. CHES Trade Notifications (MT 164) were scheduled with the previous used Clearing PID rather than the new Clearing PID. This resulted in 1,595 ASX trades being scheduled for settlement with the previously used Clearing PID in CHES.
2. CHES Trade Registration Requests (MT 161) submitted by Chi-X via the Trade Acceptance Service were rejected by CHES. This resulted in 1,386 trade registration requests not automatically being scheduled for settlement in CHES.

The first issue arose due to a configuration in CHES that is rarely a factor in participant transitions. The more common participant transition is that a participant changes from self-clearing to a third party clearing arrangement. However, in the transition in question a participant was moving clearing operations (i.e. administration) from in-house to a third party, while continuing to self-clear. In error, the configuration change made in CHES was that of a change in clearing arrangement rather than a configuration change to reflect the outsourcing of clearing administration.

The second issue arose from a failure to add the new Clearing PID to the relevant data table in CHES for trades received from Chi-X. The table forms part of the verification process for accepting trades for settlement in CHES. This resulted from operator oversight.

### OUTCOMES

ASX applied a fix on the day to reflect the correct Clearing PID on scheduled settlements that initially reflected the previously used Clearing PID.

ASX replayed the rejected trade registration requests received from Chi-X and they were subsequently scheduled for settlement on a T+3 basis.

There was no impact to settlement on the scheduled settlement date as a result of these issues.



## **AGREED ACTIONS**

ASX's Senior Manager, Operations Risk Management conducted a review of the CHES PID mapping process. The output of the review was the following agreed actions:

1. Accelerated cross-training of staff in areas involved in CHES maintenance processes to increase the resource pool available in the relevant operational business areas.
2. Enhancements to the documentation used to record and track participant transition processes, including highlighting of less common elements.
3. Extension of testing procedures for participant transitions with less common elements.
4. Introduction of enhanced customer liaison on day one of a change.

## **ACTIONS STATUS**

The actions were all completed in December 2015.

## BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 3

<b>Topic</b>	Management Accounts
<b>Date of the Meeting</b>	17 February 2016
<b>Purpose of this paper</b>	To inform Business Committee members of the cash market clearing and settlement management income statements for the half-year ended 31 December 2015.
<b>Action required</b>	To note the agenda paper.

---

On 11 February 2016, ASX published, together with ASX Limited 1H16 Financial Results, cash market clearing and settlement management income statements for the half-year ended 31 December 2015.

Both management income statements have been prepared based on management information provided in accordance with the commitment ASX made in the Code of Practice and ASX's internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia.

The ASX internal cost allocation and transfer pricing policy is available on the [ASX website](#)

The cash market clearing and settlement management income statements for the half-year ended 31 December 2015, are provided in Attachments A and B.

### CASH MARKET CLEARING

The cash market clearing management income statement reflects a profit after tax of \$15.8 million, an economic profit after capital charge of \$5.8 million and a return on equity of 14.4%.

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

The management accounts do not include clearing of equity options.

### CASH MARKET SETTLEMENT

The cash market settlement management income statement reflects a profit after tax of \$12.8 million, an economic profit after capital charge of \$6.0 million and a return on equity of 17.8%.

Total capital allocated to cash market settlement is \$143.2 million. This comprises business / operational risk capital and invested capital.

### Attachments

Attachment A – Cash Market Clearing Management Income Statement  
Attachment B – Cash Market Settlement Management Income Statement

**Management Income Statement – Cash Market Clearing**

	<b>1H16</b> \$ Million	<b>1H15</b> \$ Million
<b>Revenue</b>		
Cash market clearing	28.8	24.1
Revenue sharing rebate	(1.7)	(1.1)
Participation fees	0.1	0.1
Technical services	0.1	0.1
<b>Operating revenue</b>	<b>27.3</b>	<b>23.2</b>
<b>Expenses</b>		
Staff	3.8	3.6
Equipment	0.8	0.8
Occupancy	0.5	0.5
Administration	0.6	0.5
<b>Cash operating expenses</b>	<b>5.7</b>	<b>5.4</b>
<b>EBITDA</b>	<b>21.6</b>	<b>17.8</b>
Depreciation and amortisation	1.0	1.0
<b>EBIT</b>	<b>20.6</b>	<b>16.8</b>
Net interest income	2.0	2.5
<b>Total net interest income</b>	<b>2.0</b>	<b>2.5</b>
<b>Profit before tax</b>	<b>22.6</b>	<b>19.3</b>
Tax expense	(6.8)	(5.8)
<b>Profit after tax</b>	<b>15.8</b>	<b>13.5</b>
Capital charge	(10.0)	(11.0)
<b>Economic profit after capital charge</b>	<b>5.8</b>	<b>2.5</b>
<b>EBITDA margin</b>	<b>79.1%</b>	<b>76.6%</b>
Total Capital	218.1	218.1
<b>Return on capital</b>	<b>14.4%</b>	<b>12.3%</b>

**Management Income Statement – Cash Market Settlement**

	<b>1H16</b> \$ Million	<b>1H15</b> \$ Million
<b>Revenue</b>		
Cash market settlement	23.5	21.8
Revenue sharing rebate	(0.8)	(0.3)
Settlement access revenue	0.1	0.1
Participation fees	0.2	0.2
Settlement fail fees	0.9	0.8
Technical services	0.2	0.2
<b>Operating revenue</b>	<b>24.1</b>	<b>22.8</b>
<b>Expenses</b>		
Staff	4.3	4.1
Equipment	1.1	1.2
Occupancy	0.6	0.5
Administration	0.9	0.8
<b>Cash operating expenses</b>	<b>6.9</b>	<b>6.6</b>
<b>EBITDA</b>	<b>17.2</b>	<b>16.2</b>
Depreciation and amortisation	0.1	0.1
<b>EBIT</b>	<b>17.1</b>	<b>16.1</b>
Net interest income	1.2	1.5
<b>Total net interest income</b>	<b>1.2</b>	<b>1.5</b>
<b>Profit before tax</b>	<b>18.3</b>	<b>17.6</b>
Tax expense	(5.5)	(5.3)
<b>Profit after tax</b>	<b>12.8</b>	<b>12.3</b>
Capital charge	(6.8)	(7.3)
<b>Economic profit after capital charge</b>	<b>6.0</b>	<b>5.0</b>
<b>EBITDA margin</b>	<b>71.5%</b>	<b>71.2%</b>
Total Capital	143.2	140.0
<b>Return on capital</b>	<b>17.8%</b>	<b>17.5%</b>

## BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4C

<b>Topic</b>	<b>Review of Trade Acceptance Service Legal Terms</b>
<b>Date of the Meeting</b>	17 February 2016
<b>Purpose of this paper</b>	The Business Committee will be updated on the review of the Legal Terms of the Trade Acceptance Service being undertaken by ASX Clear and ASX Settlement.
<b>Action required</b>	To note the agenda paper.

---

The Legal Terms for the Trade Acceptance Service came into effect with the establishment of the service on 31 October 2011, with a term of five years. The Legal Terms are due to expire on 31 October 2016.

The Legal Terms provide that a review be commenced twelve months prior to the expiry of the Legal Terms and that the review is published within four months of its commencement. The review was commenced in October 2015 and will be published by the end of February 2016.

The objective of the review has been to confirm that the Legal Terms remain appropriate for the service. The review has not identified a need for significant changes to the Legal Terms. Accordingly, the Trade Acceptance Service will continue to be made available on substantially the same terms for another five year term.

ASX's intention is to invest in new post-trade technology and infrastructure for the cash market, either through CHES replacement or distributed ledger technology. ASX will commit in the updated Legal Terms to the provision of 'trade acceptance services' to AMOs on a non-discriminatory basis through any new technology.

# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 6A

<b>Topic</b>	Forward Work Program Update
<b>Date of the Meeting</b>	17 February 2016
<b>Purpose of this paper</b>	To update the Business Committee on the forward work program
<b>Action Required</b>	The Business Committee is invited to provide feedback on the future topics for discussion and the prioritisation.

---

## OVERVIEW

The draft 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 26 November 2015 meeting and members have had further opportunity to add topics via e-mail up to early February 2016.

Consistent with previous years the forward work program sets out work streams according to the following four major themes:

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

## FUTURE TOPICS

It remains important that the industry provides input on the future topics to reflect industry priorities. However, as previously agreed, the focus needs to remain on existing priorities such as T+2 Settlement, Corporate Actions STP Phase 2, Clearing Competition decision impact and the eventual replacement of CHES (incorporating any new technology opportunities) and to be mindful of other business priorities and general capacity.

As you can see from the attached draft forward work program existing and new items (from internal and external feedback) have been included along with a few "special topic" suggestions.

## QUESTIONS FOR THE BUSINESS COMMITTEE

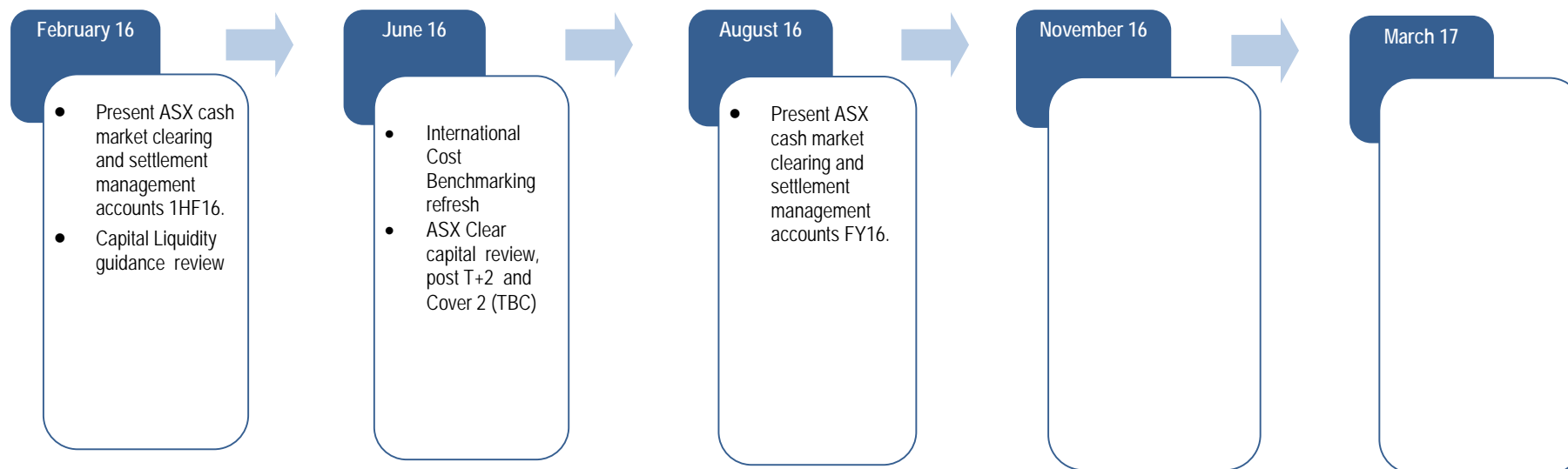
- Does the draft forward work program extending to March 2017 reflect industry priorities?
- Are there additional topics that could be considered for inclusion?

## ATTACHMENTS

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

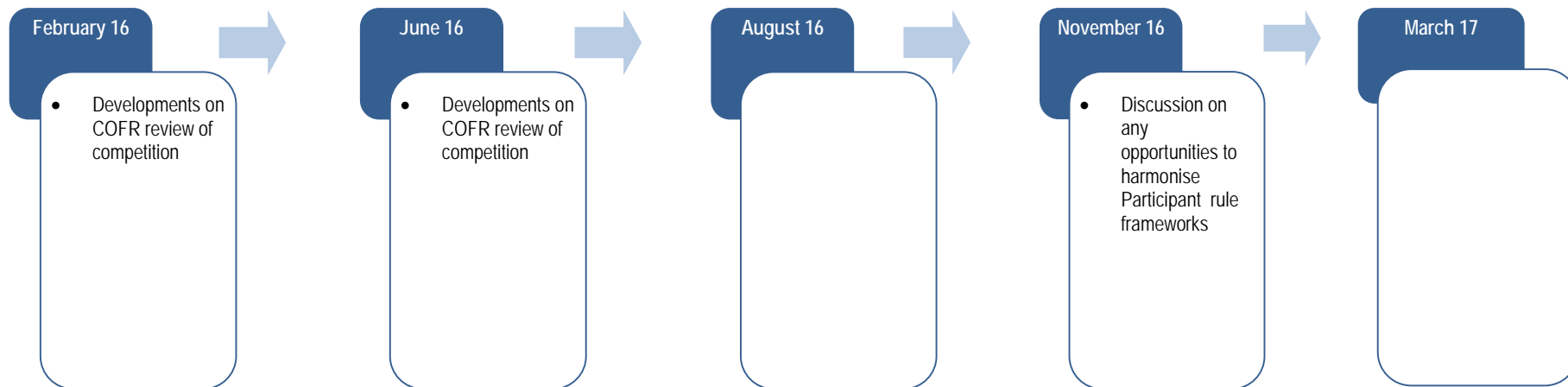
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
1. Capital Efficiency and industry economics	To minimise the capital costs for ASX's customers whilst maintaining robust CCP capital support	a. ASX cash market clearing and settlement economics	ASX to publish management 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. International benchmarking of cash market clearing and settlement costs	ASX Clear and ASX Settlement will refresh and review the results of the June 2014 international price benchmarking report on the cost of post trade services.
		c. Liquidity Management and Capital Assessment review, including Capital Tiering	ASX will provide an overview and update of the consultation paper on the proposed Clearing Participant liquidity guidance note.
		d.	

Timing for Business Committee Consideration of Topics



Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
2. Participant Structure, Flexibility & Efficiency	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.
		c.	
		d.	

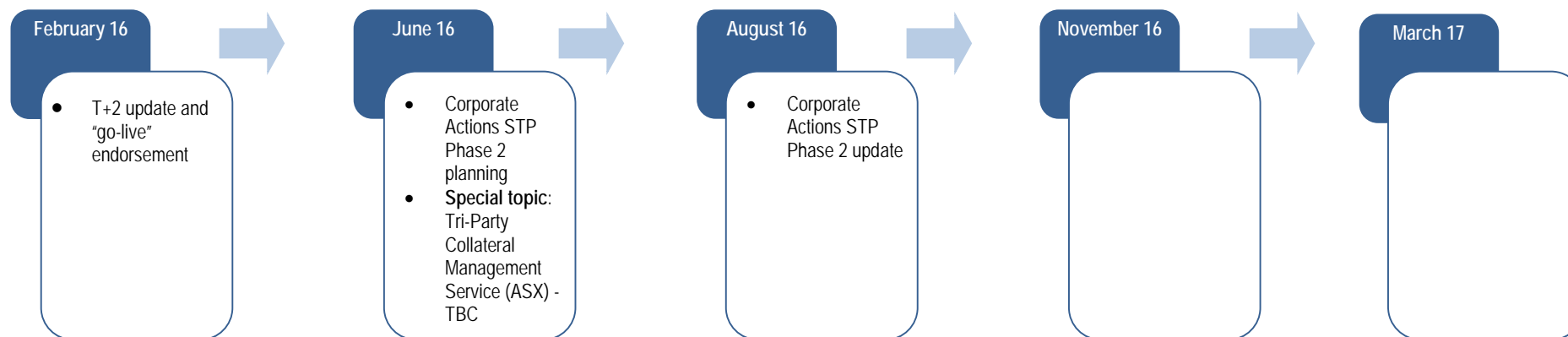
Timing for Business Committee Consideration of Topics





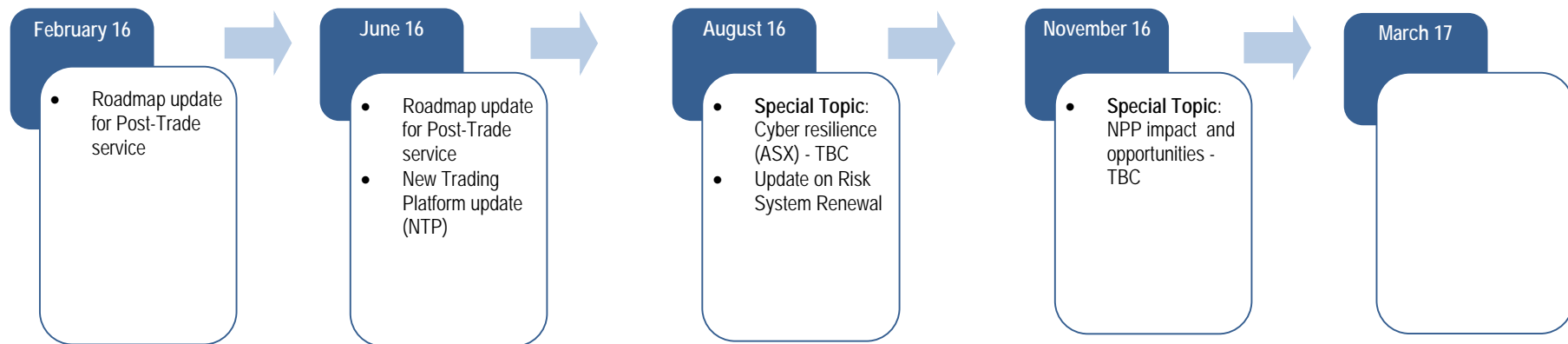
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
3. Service Innovation	To deliver global best practice cash market clearing and settlement services	a. Updates on the implementation of T+2 settlement cycle	ASX will provide regular updates on the industry's readiness 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 CHESSE replacement plans. Principles which will deliver further streamlined process for the announcement, data capture and delivery (using ISO 20022) of corporate action information.
		c.	
		d.	

Timing for Business Committee Consideration of Topics



Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
4. Technology & Infrastructure Enhancement	To maintain and upgrade technology and infrastructure consistent with global standards	a. 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.
		d.	

Timing for Business Committee Consideration of Topics



## BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 6B

<b>Topic</b>	Minutes from 26 November 2015 meeting
<b>Date of the Meeting</b>	17 February 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 26 November 2015 meeting.
<b>Action required</b>	To approve the minutes and report to the Forum from the 26 November 2015 meeting.

---

Draft minutes and the draft report to the Forum from the 26 November 2015 Business Committee meeting were emailed to all members of the Business Committee on 9 December 2015 for comments by 16 December 2015.

A change to the draft minutes suggested by a Business Committee member was made.

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

The Business Committee minutes were signed by the Chair on 22 December 2015.

A copy of the minutes and report to the Forum from the 26 November 2015 meeting are provided in Attachments A and B.

### ATTACHMENTS

Attachment A – Minutes from the 26 November 2015 Meeting

Attachment B – Business Committee Report to the Forum from the 26 November 2015 Meeting



MINUTES OF THE BUSINESS COMMITTEE  
THURSDAY, 26 NOVEMBER 2015  
ASX LIMITED  
LEVEL 1, 20 BRIDGE STREET SYDNEY

- 1. Introduction**
- 2. Service Performance**
- 3. Business Matters**
  - a. Update on T+2 implementation
  - b. Roadmap for post-trade service infrastructure
- 4. Regulatory updates**
  - a. Council of Financial Regulators
  - b. FATCA update
- 5. Administration**
  - a. Forward work program
  - b. Minutes from the 27 August 2015 meeting
  - c. Proposed 2016 Forum and Business Committee meeting dates
  - d. Other matters

**ATTENDEES**

<b>MEMBERS</b>		
<b>Company</b>	<b>Name</b>	<b>Job Title</b>
ANZ	Mr Andrew Koudrin (as delegate for Mr 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 Mr David Braga)	Acting Head of Clearing & Custody 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	Mr Jeremy Follett	Executive Director Operations
J.P. Morgan	Mr Paul Cooper (as delegate for Mr Suneet Jain)	Head of Equity Operations
Macquarie Group	Mr James Indge	Cash Equities Business Manager
Morgans	Ms Sue Gye (as delegate for Mr Peter Chisholm)	Manager Operations
Morgan Stanley	Mr Craig McGuire	Head of Operations
National Australia Bank	Mr Brett Grant (as delegate for Mr Nathan Walsh)	HO Self Directed Investing
NSX	Mr Emlyn Scott	Chief Executive Officer
Patersons Securities	Ms Jane Irwin	Head of Operations
SSX	Mr David Lawrence	Chief Operating Officer & Company Secretary

<b>ASX Management</b>	
<b>Name</b>	<b>Job Title</b>
Ms Amanda Harkness	Group General Counsel & Company Secretary
Mr Tim Hogben	Group Executive, Operations
Mr Cliff Richards	General Manager, Clearing Services
Mr Daniel Moran	Deputy General Counsel Corporate
Mr Rodd Kingham	Senior Manager, Clearing Services
Mr Gary Hobourn	Senior Economic Analyst, Regulatory and Public Policy (items 4a and 4b)

## APOLOGIES

MEMBERS		
Company	Name	Job Title
ABN AMRO Clearing	Mr Sean Lawrence	Managing Director
Bell Potter Securities	Mr Dean Surkitt	Managing Director Retail
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
HSBC	Mr. Peter Snodgrass (as delegate for Mr Andrew Bastow)	Head of Direct Custody & Clearing, HSBC Securities Services
Pershing Securities	Mr Rob Forbes	Chief Executive Officer
UBS	Mr Conor Foley	Chief Operating Officer

Mr Hogben took the Chair at the commencement of the meeting. The Chair formally opened the meeting at 4.40pm. Attendance for part of the meeting is noted in the attendees section on the preceding page.

### AGENDA ITEM 1: INTRODUCTION

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

The Chair welcomed Paul Cooper of JP Morgan (attending on behalf of Suneet Jain) and Brett Grant (attending on behalf of Nathan Walsh) of National Australia Bank 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 quarter ended September 2015 and for the period to 30 October in the quarter ending 31 December 2015.

The Chair spoke to the agenda paper, noting that in the relevant period:

- CHES and TAS system availability was 100%.
- Total trades accepted across the ASX and Chi-X platforms was steady, with an increase of approximately 8% in volume and 6% in value.
- Percentage novated (73%) and netting efficiency (98% net down volume, 64% net down value) were also steady.
- A small number of trades through the ASX platform were rejected in the September quarter, generally due to invalid business dates on trade or special market trades with an incorrect basis of quote. Outside the relevant period, but noted for the Committee's information, a significant number of trades (1,396 from Chi-X and 1,595 from ASX) were either rejected at settlement validation or scheduled with an incorrect clearing ID (PID) on 18 November as a consequence of configuration issues within ASX relating to a change in structure of an ASX participant. All trades were valid. The issue was subsequently rectified with all trades scheduled for settlement as normal at the end of the day. This delayed scheduling of settlements may have caused delays with completion of reconciliations and generation of contract notes.
- Settlement fail rates remained very low at 0.2%.
- There was a delay by one clearing participant in meeting the 10.30am cut-off time for cash market margin, as a consequence of a technical issue. A referral was subsequently made to ASX Compliance.

The Chair invited Members to comment on any other impact of the 18 November issue. A Member commented that they would like to hear from ASX on any review of procedures being undertaken that might prevent a recurrence of the issue. The Chair responded that this was currently subject to a review by ASX's Operations Risk function, and that ASX would report back to the Committee on any changes being instituted as a result of this review. **[AGREED ACTION 1]**

The Chair invited other comments from Members on the Operational report. A Member asked whether additional information would be provided to the Committee on the new clearing service for non-ASX quoted products provided through the Trade Acceptance Service. The Member mentioned specifically information relating to the issuer administration services that support clearing for non-ASX quoted products. The Member considered that it would be appropriate for this information to be included in the Operational report.

A Member also requested more granular data be provided in the Operation Report in the use of the Trade Acceptance Service and the Settlement Transfer Service.

The Chair responded that ASX would engage with users of the Trade Acceptance Service on what information was provided and whether any more granular information was delivered as part of this Operational report to the Business Committee, or bilaterally. **[AGREED ACTION 2]**

The Chair then updated the Committee in relation to BBY (cash equities aspects), noting that of around 24,000 HINs (of which around 8,900 HINs had holdings and were considered active), approximately 5,500 HINs were transferred to a new sponsoring participant and any remaining HINs with holdings were converted to issuer sponsored holdings after communications to holders. A small number of remaining HINs were being dealt with through BBY's external administrators.

The Chair then raised the issue of settlement and non-settlement days, noting that it had been determined not to declare the 2016 Victorian AFL Grand Final public holiday a non-settlement day, as this would result in three consecutive trading days being rolled up into a single settlement day, causing potential heightened settlement risk. ASX proposed to consult in 2016 on non-settlement days and whether only national public holidays should be declared as non-settlement days (consistently with the RBA's approach). In response to a question from a Member, the Chair confirmed that any such change would not be effective until the 2017 calendar year.

The Chair then reported on the use of corporate actions STP through the reporting period, noting that approximately 60% of corporate actions were now being put through STP with over 360 dividends captured in this way during the period. The remaining corporate actions would go into development in 2016 with the objective of offering a single service across all corporate actions.

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

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

#### **a. 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 remained on participant and vendor readiness, and on retail communications. An information brochure for retail clients had been produced.
- Four vendor / participant workshops had been conducted, and all four vendors were on track with no red flags.
- Operating rules changes had been lodged for regulatory approval.
- The fourth Market Implementation Group (MIG) meeting was held in November, and included an update from AFMA on wholesale bond market readiness.

- Feedback from NZX indicated that New Zealand was still on track for launch concurrently with Australia.
- A dedicated ASX support team was in place and was engaged with Members' operational and project teams.

The Senior Manager, Clearing Services then discussed milestones to launch, noting:

- A readiness checkpoint in mid-December with calls from ASX to each vendor and participant, with a further checkpoint in January.
- Attestations on 12 February (noting that attestation forms had been prepared and communicated).
- Fifth MIG to be held on 18 February 2016.

The Chair invited Members to comment on any issues with T+2 readiness.

A Member raised the readiness of non-broker participants and asked whether ASX had engaged with that group. ASX's Senior Manager, Clearing Services responded that as agreed at the previous meeting, ASX had attempted to engage with the Australian Securities Dealers Association but had encountered some difficulty in making contact. It was agreed that ASX and Members would continue to attempt to engage with this group in relation to T+2 readiness. **[AGREED ACTION 3]**

There were no further questions or comments from Members.

Mr Hiom joined the meeting and took the Chair at 5.10pm.

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

The Chair provided an update on this agenda item. He noted that ASX was proceeding with the implementation of its technology strategy. The current focus was the new trading platform with the futures and equities platforms both to follow next year. The process of consolidating the two derivatives clearing platforms would commence around the middle of next year.

The Chair commented that ASX would coordinate its decisions on cash equities clearing and settlement infrastructure. He confirmed that a decision on cash equities clearing infrastructure would not be made until a decision on CHES replacement, which in turn was dependent on the Government's response to the Council of Financial Regulators report. This decision would also provide some clarity on the technology required to support cash equities settlement, but in the meantime ASX was focussing on what options were available. ASX's approach would be to enable customers to have early input, to inform the ultimate decision on CHES replacement. The Chair confirmed that the target was to be in a position to engage with customers in the second calendar quarter of 2016.

The Chair also commented on progress in the replacement of ASX's risk systems, noting that the implementation of the new Sentinel clearing risk management system was on schedule, and that work had commenced on systems supporting the real-time monitoring of risk.

The Chair invited questions from Members. A number of Members asked about the timing of a Government decision, the timeframe from that decision to customer engagement on the new platform, and whether customer consultation would commence ahead of the presentation of a prototype. The Chair confirmed that the timing of the Government decision was not clear, but that there was no immediate practical issue in terms of having a supported settlement platform in place. ASX was working to put itself in the position to present to customers in the second calendar quarter of 2016, and wanted to have something to put in front of customers that would form the basis for that discussion.



A Member asked whether blockchain technology would form part of the discussion about the new settlement platform. The Chair responded that ASX was casting the net very wide in terms of what might be possible, and that would include understanding what, if any, application blockchain technology may have.

There were no further questions from Members.

#### **AGENDA ITEM 4: REGULATORY UPDATES**

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

The Chair noted his comments in relation to Agenda item 3b and that ASX had no further information at this time. There were no questions or comments from Members.

##### **b. FATCA update**

ASX's Senior Economic Analyst joined the meeting for this agenda item. The Chair introduced the item by noting previous discussions on the possibility of a CHESSE-based solution for the FATCA reporting requirements of exchange traded product issuers. The Chair further noted Members' concerns in relation to a solution involving the imposition of an obligation on brokers to collect information for this purpose, notwithstanding any commercial incentive for brokers. ASX had been prepared to support a CHESSE-based solution but only on the basis of support from the industry that this was the agreed approach.

The Senior Economic Analyst noted that at the previous meeting ASX was cautiously optimistic of a bank account-based solution that would not impose any additional burden on the industry. Based on feedback from relevant Government agencies, ASX was now less optimistic of this solution, which now did not appear to be viable due to gaps between the reporting requirements relating to bank accounts and those relating to securities accounts. However, the deadline for compliance was now 2017, for both FATCA and CRS. This might provide an opportunity for issuers to engage with Government on the obligations, but in the meantime the preconditions for a CHESSE-based solution did not exist.

A Member commented that based on recent industry engagement with Government agencies it appeared that 1 July 2017 would be the hard deadline for CRS, that the reporting obligation would be with product issuers with fines for non-compliance, and that discussions were on-going on whether the obligation would be post-trade rather than pre-trade.

There were no further comments or questions from Members.

#### **AGENDA ITEM 5: ADMINISTRATION**

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

The Chair introduced ASX's Senior Manager, Clearing Services to speak to the 2016 forward work program. The Senior Manager, Clearing Services commented that there would be a focus on T+2 and then on CHESSE replacement and phase 2 of corporate actions STP, but emphasised that Members were encouraged to add any priorities for the Business Committee into that forward plan. ASX would engage with Members in the period leading up to the next meeting in February and Members agreed to advise ASX of any items for inclusion. **[AGREED ACTION 4]** ASX would engage with the Committee in February on any new items proposed for inclusion.

##### **b. Minutes from the 27 August 2015 meeting**

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

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

The Chair noted that Members had been provided with proposed meeting dates for 2016 and invited any feedback, including on whether an additional meeting should be held after the proposed February 2016 meeting and before T+2 go-live. It was agreed that a comprehensive T+2 update would be provided by ASX at the February meeting and that a decision could be made at that time on whether a further interim meeting was needed. **[AGREED ACTION 5]**

A Member commented that the proposed 1 June 2016 meeting may conflict with a Stockbrokers' Association of Australia event. The Chair confirmed that ASX would update the proposed timetable as required. **[AGREED ACTION 6]**

The next meeting will be held at 12pm on Wednesday, 17 February 2016.

**d. Other matters**

As there was no further business discussed, the meeting closed at 5.45pm.

Signed as a correct record of the meeting.



22 December 2015

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Chairman

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Date



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

From the 26 November 2015 Business Committee meeting

At its 26 November 2015 meeting, the Business Committee was updated on:

- preparations for implementation of a T+2 settlement cycle;
- the roadmap for post-trade service infrastructure; and
- discussions in relation to Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) requirements impacting tradeable investment products.

The Business Committee was also provided with a regulatory update on the Australian government's decision on the review of the market structure for clearing cash equities.

### **Key Recommendations**

There were no recommendations arising from the meeting.

### **Key Issues Discussed**

- Stakeholder engagement on readiness for T+2 settlement targeted for launch on 7 March 2016. The project remained on track for the launch. Readiness checkpoints would be initiated by ASX in December and January with a technical attestation in February ahead of the next Business Committee meeting.
- ASX was proceeding with the implementation of its technology strategy. Pending the Government's response to the Council of Financial Regulators report, ASX was exploring options for CHES replacement and targeting engaging with customers in calendar Q2 2016.
- Treasury and the ATO had confirmed that it would not be possible to provide a FATCA reporting solution using existing bank account information. However the deadline for compliance by issuers had moved out to 2017.

## **Agreed Actions**

1. ASX to report back to the Business Committee on outcomes of its review of procedures following a technical issue resulting in trade rejections in November.
2. ASX to engage with users of the Trade Acceptance Service on reporting.
3. ASX and Members to continue to attempt to engage with non-broker participants regarding T+2 readiness.
4. Members to advise ASX of any items proposed for inclusion in the 2016 forward work plan.
5. A T+2 update to be provided at the February 2016 meeting and a decision taken on whether a further meeting was required ahead of go-live.
6. ASX to update the proposed 2016 meeting timetable as necessary to ensure no significant conflicts with other industry events.

## BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 6C

<b>Topic</b>	2016 Forum and Business Committee Dates
<b>Date of the Meeting</b>	17 February 2016
<b>Purpose of this paper</b>	To provide Business Committee members with the updated 2016 meeting dates.
<b>Action required</b>	To note meeting dates.

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The 2016 Forum and Business Committee meeting dates are set out below.

Forum Meeting Dates	Business Committee Meeting Dates
Thursday, 14 April 2016 Commencing at 10.00am	Wednesday, 17 February 2016 Commencing at 12 noon
	Wednesday, 15 June 2016 Commencing at 12 noon
	Wednesday, 31 August 2016 Commencing at 12 noon
Wednesday, 12 October 2016 Commencing at 10.00am	Wednesday, 30 November 2016 Commencing at 12 noon

Additional meetings may be called if there is a change in the market structure or policy.

Members are asked to note the updated meeting dates.