



MINUTES

BUSINESS COMMITTEE MEETING

Date	Time	Location
Thursday , 2 March 2017	2.00pm – 6.00pm	ASX offices – Level 1, 20 Bridge Street, Sydney

Agenda Item	
1.	Introduction
2.	Service and Financial Performance a) Operating Performance Report b) Management Accounts for Cash Market Clearing and Settlement
3.	Code of Practice a) Revised Business Committee Charter and updated Code of Practice
4.	Forward Work Program a) CHES replacement - ASX consultation b) Forward work plan for post-trade service infrastructure c) CHES replacement - Vision and priorities (Verbal)
5.	Committee Reports a) Technical Committee Report (meeting 13 December 2016)
6.	Administration a) Minutes from the 1 December 2016 meeting b) Proposed 2017 Business and ISO 20022 Technical Committee meeting dates c) Other matters

NEXT MEETING: Thursday 4 May 2017



Members		
Company	Name	Job Title
ABN AMRO Clearing	Mr Tapos Thakur	Chief Risk Officer
AFMA	Mr David Lynch	Chief Executive Officer
ANZ	Mr Andrew Shade (delegate for P. Mullin)	Head of Distribution ANZ SI, Wealth Australia
ASX	Mr Peter Hiom	Business Committee Chair, Deputy CEO
Bank of America Merrill Lynch	Mr Rhys Cahill	Global Markets COO
Bell Potter Securities	Mr Dean Surkitt	Managing Director Retail
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
CBA	Mr Sheridan Thompson	Head of Strategic Development, CommSec
Credit Suisse	Mr Winston Loke	Australia Equities COO
Deutsche Bank AG	Mr Geoffrey Plaisted	Chief Operating Officer, Equities
Goldman Sachs	Mr Jeremy Follett	Executive Director Operations
HSBC	Mr Peter Snodgrass	Head of Direct Custody and Clearing
J.P. Morgan	Mr Jonathan Evans	Head of Custody and Markets Operations
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 (delegate for N. Walsh)	Head of Markets & Regulatory Management
NSX	Ms Anne Bowering	Managing Director
Pershing Securities	Mr Rob Forbes	Chief Executive Officer
Stockbrokers and Financial Advisers Assoc	Mr Andrew Green	Chief Executive Officer
Sydney Stock Exchange	Mr Tony Sacre	Chief Executive Officer
UBS	Mr Conor Foley	Chief Operating Officer
Apologies: Winston Locke (Credit Suisse)		



ASX Management	
Name	Job Title
Ms Amanda Harkness	Group General Counsel & Company Secretary
Mr Tim Hogben	Chief Operating Officer
Ms Eloise Wett	Executive General Manager, Operations
Mr Cliff Richards	General Manager, Equity Post Trade Services
Mr Nick Wiley	Deputy General Counsel, Post-Trade
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 Stephen Hammon	General Manager, Finance



AGENDA ITEM 1: INTRODUCTION

The Chair formally opened the meeting at 2pm and welcomed members and delegates and noted changes in the representatives for three members since the last meeting: Jonathan Evans (JP Morgan), Tony Sacre (Sydney Stock Exchange) and Geoffrey Plaisted (Deutsche Bank). The Chair also welcomed a new member David Lynch, representing the Australian Financial Markets Association (AFMA).

AGENDA ITEM 2: SERVICE PERFORMANCE

a. Operating Performance Report

The ASX Chief Operating Officer spoke to the agenda paper covering the period from November 2016 to end January 2017 noting that:

- For the December quarter trades accepted into the settlement facility from the ASX trading platform were in line with the previous quarter while those from Chi-X were up about 7%, and there was also increased trading from NSX and SSX. Both ASX and Chi-X saw a fall in activity in January while SSX and NSX continued to experience increased activity.
- Both CHES and the Trade Acceptance Service had 100% availability over the period.
- Netting remained at historically high levels, about 99.92% on volume and 60% on value.
- Fail rates were very low (0.31%) despite increased trading and market volatility over the period. This equates to around 261 fails in an average batch of 84,000 settlements a day.

There was one extension (30 minutes) to the settlement cut off time throughout the period. This was due to a technical issue affecting a large participant.

Daily cash market margin held by ASX Clear remained around levels of the previous quarter, an average of around \$163 million a day, ranging between \$90 million and \$261 million.

The mFund Settlement Service experienced a rise in activity over the period. In January there were around 1,150 application and redemption requests and about \$18 million in value invested. The platform now services 177 funds across 57 fund managers, with funds under management of around \$256 million.

There were no questions on the Operating Report.

b. Management Accounts for Cash Market Clearing and Settlement

The General Manager, Finance noted that in line with past practice, ASX released (on 17 February) the management accounts for Cash Market Clearing and Cash Market Settlement alongside the release the ASX group financial results. The key points were:

- Cash market clearing - a reduction in gross revenue, largely reflecting the 10 per cent reduction in ASX clearing fees effective from 1 July 2016.
- Cash market settlement - a rise in revenue related to the increased market activity over the period.
- There was a \$20 million increase over the previous year to \$238 million in total capital allocated to the clearing house. This amount was initially reported at the time of the full year financial results. It reflects a change to the European Securities and Markets Authority (ESMA) methodology impacting on the



business risk capital required to be held in the clearing house. ASX contributes all the regulatory capital to the clearing house

A member asked whether the issuer administration services fees, paid by issuers listed on other venues (e.g. NSX and SSX), are reflected in the settlement accounts. The General Manager, Finance advised that these fees are not included under cash market settlement as they are paid by issuers and not participants. They are reflected in ASX's accounts under issuer services.

A member asked if it were possible to get a breakdown of the composition of the capital held in the clearing and settlement facilities. The Chair noted that such a breakdown is competitively and commercially sensitive information.

The Group General Counsel noted that the level of disclosure ASX provides around the makeup of the capital is far more transparent than any other CS facility and there are strategic commercial and other reasons why further detail is not provided. She noted that ASX makes more detailed disclosure on these matters to the regulators.

AGENDA ITEM 3: CODE OF PRACTICE

a. Revised Business Committee Charter and updated Code of Practice

The Group General Counsel noted that members had received a copy of a revised Business Committee Charter and Code of Practice. The latter included some small revisions made in response to issues raised at the December 2016 Business Committee meeting.

She noted that the role of the Committee is to provide a formal mechanism for input to both ASX management and the Boards of ASX Clear and ASX Settlement. There is a process for the Chair to determine a broad consensus and for those views to be put for to the ASX Boards.

The Chair noted that the Stockbrokers and Financial Advisers Association (SAFAA) had tabled a set of resolutions on behalf of SAFAA members for the Committee's consideration in relation to this agenda item. These resolutions are at Appendix A.

The Committee discussed the background to the resolutions which were prepared by SAFAA's CHES Replacement Working Group. The SAFAA representative confirmed that membership of that Working Group included most of the organisations represented at the Business Committee. The resolutions proposed a change to the Charter and a number of changes to the Code of Practice.

The Chair asked each member to confirm if they agreed with the proposals contained in the resolutions.

All members indicated that they agreed with the proposed change to the Business Committee Charter to require the Chair to seek a vote from members when establishing a 'broad consensus' of views and that the outcome should be confirmed at the meeting.

All members agreed with the objectives of the proposed changes to the Code of Practice. A broad consensus of members also agreed with the specific draft resolutions relating to these changes. A few members who were supportive of the proposal indicated that the precise drafting of some of the points may need more work.



Committee members expressed the clear desire for changes to clarify the definition of users under the Code as they believed there was some uncertainty in the existing drafting. The Group General Counsel noted that the definition of users used in the Code of Practice is in direct response to the requirement in the Council of Financial Regulators Regulatory Expectations that ASX consider the views of all users including listed companies and investors.

There was also broad support for the recommendation that the highest priority for CHES replacement should be to meet the needs of users (defined to include clearing and settlement participants, approved market operators, and clearing and settlement facilities). A few members expressed a view that further consideration could be given to the precise drafting around the definitions of users and the priority of different user groups.

One member expressed some concern with the drafting requiring the ASX Boards to “take actions in accordance with recommendations made by the governance committees” given the advisory nature of the group. Although that member indicated that they were more comfortable with a ‘comply or explain’ requirement.

Based on the discussion, the Chair determined that there was a broad consensus that the resolutions on proposed changes to the Business Committee Charter and Code of Practice, as tabled, be submitted to the Boards as recommendations of the Business Committee. **[Matter Arising 1]**

The Group General Counsel confirmed that the Boards would reply in writing to the Committee’s recommendation.

AGENDA ITEM 4: FORWARD WORK PROGRAM

a. CHES replacement - ASX consultation

The General Manager, Equity Post-Trade Services spoke to the *CHES Replacement- Public Consultation Feedback Summary* document circulated prior to the meeting on an embargoed basis. This document is available at <http://www.asx.com.au/services/ches-replacement.htm>.

There were 36 submissions received, 23 provided on a confidential basis. Workshops with participants and others were also used to gather additional views to confirm the views provided in written submissions. In response to a question from a member it was noted that around 12 responses to the Supplementary Questionnaire had been received.

The themes of the feedback received included:

- An appetite for more information on some proposals put forward in the original consultation paper.
- There was consistent support for, or at least understanding of, the move to adopt ISO 20022 message standards. Global banks expected to get the largest benefit from the move while domestically-focused operations saw minimal benefit for their organisations.
- There was a larger appetite for ‘Day 1’ functional change, particularly those that would deliver significant operational efficiencies to participants.



- There were no major concerns about ASX investigating Distributive Ledger Technology (DLT), although many indicated they need additional information to understand the potential impact of the new technology.
- There were different views expressed about the best approach to transitioning from CHES to ISO 20022 messages. Some favoured a 'big bang' switchover, while others preferred a period of time during which CHES and ISO messages would operate in parallel. While some respondents indicated that they would be ISO-ready from Day 1, many indicated they would require a period of between six months to three years to prepare.
- In relation to settlement period choice around one-third of responses indicated support, one-third expressed interest in understanding more, and one-third had no interest.
- On account structures there was significant support for retaining the name on register model, however a number of respondents believed there could be benefit from changing to a custody model of account structures.
- There were a wide range of views expressed about the relative priorities the large list of possible functional system enhancements. These views typically varied according to the type of operational model or business model that a particular business was operating.

The discussion was opened up to questions and comments from members.

A member suggested that ASX should have engaged an independent party to prepare the consultation summary document given that ASX's interpretation of submissions might reflect a bias towards particular pathways it is looking to take. In contrast, another member mentioned that he had gone through the paper and thought his organisation's views were well reflected in the summary document, and he thought many other members may have the same view.

The Group General Counsel noted that all submissions have been provided to the regulators, including those provided on a confidential basis.

There was a question from a member on account structures and whether the statement in the paper that "ASX notes that such changes extend beyond the functionality of the CHES system and its replacement" should be interpreted as excluding further discussion of that issue.

The Chair responded that a working group was being established with a broad range of interested stakeholders to discuss account structures but that it had to be acknowledged that there are very significant impacts on existing market practice and business models of a diverse group of stakeholders if the structure of registers are changed. These matters go beyond the replacement of CHES and would require a broad consensus across industry. That said, ASX would not foreclose any discussion about the existence of the account structures that sit within the system. In fact, discussion of account structures are scheduled at the beginning of the working group process because the outcome is fundamental to later discussions around issues such as corporate actions.

The Group General Counsel noted that in addition to the workshop discussions there will also be a regulatory process where a much broader range of interests will be taken into consideration (e.g. RBA in relation to financial stability, ASIC with regard to its remit and the ACCC with competition).



b. Forward work plan for post-trade service infrastructure

The Chair introduced this agenda item by noting that the CHES replacement work plan for 2017 aims to determine a prioritised and well-defined set of business requirements to be discussed at the 30 November Business Committee meeting. The Boards of ASX Clear and ASX Settlement will take these final business requirements and will make a final decision on Day 1 target scope for CHES replacement in March 2018.

The Business Committee will be provided with updates during the year on how the working groups are progressing. There may also be an opportunity for the Committee to have a more substantive discussion on topics where necessary.

The General Manager, Equity Post-Trade Services indicated that based on the information received through the consultation process ASX is establishing six working groups to explore a range of issues in greater detail:

- Account Structures and Participant Models;
- Corporate Actions;
- Transfers, Conversions and Data Migrations;
- Settlement Enhancements;
- Data Storage Delivery and Related Reporting; and
- Non-functional Requirements.

Each working group will draw on the views already captured during the initial phase of consultation (written submissions, supplementary questionnaires, face-to-face discussions) as a base for it to define and prioritise the detailed business requirements of users. The meetings should be attended by subject matter experts who have detailed knowledge on these topics. The aim is to make the work of the groups manageable by ensuring the groups are representative of interested stakeholders (including issuers and investors where appropriate) but also small enough that they allow productive discussions.

ASX will appoint working group members, convene, set the agenda for, and chair meetings for each working group. The number of meetings and their frequency will be determined by ASX on a case by case basis. A summary of key actions from the meetings will be minuted.

The next step will be for ASX to formulate the working groups, agree a timetable with the members and then provide the documentation necessary to facilitate conversation. Business Committee members will also be invited to provide nominations to ASX to participate in the working groups.

The General Manager, Equity Post-Trade Services spoke to the diagram in the papers setting out the high level work plan and which provides an indication of when we're engaging with other users.

In addition to the working group there will be ongoing education sessions on the investigation into DLT, including keeping government and regulators informed of the process.

He noted in response to a member's question that software development to build base level DLT functionality is ongoing to assess the non-functional characteristics of the system are capable of supporting the necessary market infrastructure (e.g. throughput, capacity, scalability, resiliency, redundancy, etc.).



In response to a question about what approach would be taken should ASX not proceed with a DLT-based solution the General Manager, Equity Post-Trade Services noted that CHES was expected to continue to perform well and has sufficient processing capacity for some time into the future. That said, ASX operates a number of clearing and settlement systems across its post-trade facilities and is familiar with them and their vendors as well as other vendors in this space. The business requirements being developed can be used regardless of the final technology chosen.

The Chair noted that there are a range of options that will need to be considered once the detailed business requirements are understood. It may be that some high priority enhancements could be delivered through another CHES release in advance of implementing any new technology solution – although he acknowledged that there would need to be careful consideration of the costs involved for all stakeholders in such an approach.

A member asked about the proposed pricing arrangements for the new post-trade system and sought assurances that any reductions in ASX costs will be passed on to users. The Chair responded that pricing will be a function of what changes to the current service offering are implemented. Further, ASX will be making a significant investment on a new system to replace an existing system that is fully depreciated. When final decisions are taken it will be clearer how the economics of the business will change. If ASX can reduce its costs, then consideration will be given to the best way to can share those benefits across the market, whether those savings relate to reduced capital in the clearing houses or lower costs.

The Committee discussed the potential scope for service enhancements or new technology to generate operational cost savings for participants. ASX's initial investigation suggest that there are real opportunities for industry to reduce costs, but this assessment will need to be tested.

Members representing institutional brokers indicated that they thought the scope for reducing their own operational costs was limited but they hoped that CHES replacement would allow for a reduction in clearing and settlement fees. Members representing retail brokers saw greater scope for CHES replacement to reduce their operational costs.

In response to a question on enhanced settlement services the General Manager, Equity Post Trade Services stated that the working group would start with the assumption that the default remains in place (i.e. a T+2, Model 3 settlement arrangement). However, a number of users have asked ASX to provide more information on how additional settlement choices would work. ASX will provide a hypothetical model for the group to examine.

A member asked if it was possible for the Business Committee or an independent third-party to validate the ASX's selection of DLT. The Chair responded that ASX will make the decision on its technology as it is subject to licence obligations and is accountable to regulators and its shareholders to justify its investment choice. That decision will not be outsourced. He indicated that ASX will provide greater information to explain the decision made at the end of this year.

There was a question about whether there were areas where ASX had already determined its final position in advance of starting the working group process to streamline unproductive discussion. The Chair indicated ASX is keeping a very open mind about what is possible, although acknowledging that some matters touch on fundamental aspects of existing market practice.



The Group General Counsel added that one non-negotiable factor for the working group processes is that the business requirements cannot, at any level, preclude competition through the way in which ASX deploys new technology.

A member asked how much visibility and input regulators would have into the workshop process, particularly where regulatory requirements can impact on system design. The Chair confirmed that the working groups will assume existing policy settings unless regulators indicate otherwise. Regulators are unlikely to participate in working groups whose objective is to define users' business requirements.

A member asked if ASX's investment in Digital Asset Holdings created a conflict in relation to the DLT decision at the end of the year. The Chair responded that it is an investment decision that will not influence the final choice of technology and noted it is not unusual for customers to take stakes in technology vendors, particularly in developing new solutions.

The Chair asked members if there were any issues/working groups that haven't been identified in the work plan or if they had comments on the groups. No issues were raised during the meeting.

The General Manager, Equity Post-Trade Services indicated that ASX would be reaching out to contact Business Committee members for nominations of suitably qualified representatives as part of the process of putting together the working groups. Invitations would also be extended to other relevant stakeholders. **[Matter Arising 2]**

c. CHES replacement - Vision and priorities (Verbal)

The December 2016 Business Committee meeting requested that this meeting set aside time to exchange views on the vision for CHES replacement.

The General Manager, Post-Trade Services noted that the CHES replacement team's vision could be distilled into four high-level themes.

- CHES replacement should be based on contemporary technology.
- It needs to deliver a safe, secure, and internationally competitive infrastructure.
- It has to be for the benefit of the Australian market.
- It could not preclude competition at any level.

The Chair went around the table seeking member's vision of what a new clearing and settlement system should deliver over the next few years. These views included:

- Members placed the highest priority of the system delivering significant cost savings (at least 20 per cent) and operational risk reductions for participants and enhanced business opportunities. It was argued this was important given the implementation will be hard and consume a lot of time and resources.
- A member argued that the overriding consideration should be the efficiency of the capital markets in Australia, how well they operate and serve the participants in the economy. This goes to issues, such as costs, competition, the ability to take risk out of the system. The vision should be to drive the system hard to see what efficiencies and cost savings can be achieved. It will broaden the range of participants in markets and it will make Australia more attractive as a venue for investors to participate.



- There was general agreement that the new system should represent international best practice.
- A better end-customer experience, particularly for retail investors (e.g. processing corporate actions, account structures, etc.)
- Some members expressed an interest in the possibilities that different participant models might unlock, although others doubted the demand existed for different structures.
- The system must have the ability to meet the scale and stability criteria to support the market well into the future.
- Rationalising the number of clearing and settlement platforms across different product groups to create a number of efficiencies and opportunities in front, middle and back offices.
- The new system should enable and support competition including through replacing bundled clearing and settlement services and establishing open interface access. A member stated that Australia's relatively small market may not be conducive to competition at all layers of the architecture, but it should not be precluded.
- Some members noted an appetite to consider a move to T+1 or T+0 settlement.

The Chair asked members if there were any 'zero value-added' functions that they currently perform (e.g. some regulatory functions) which they thought the new system may be able to assist with. The General Manager, Equity Post-Trade Services noted that it might be possible to design an optional service that could assist participants facilitate things like CRS, FATCA, ATO, AML type reporting, through a structure that could facilitate holdings at the beneficial ownership level.

Some members saw little direct benefit for them for such a service as they are currently seeking global (or financial sector wide) solutions as the obligations apply across different jurisdictions and/or product types. Other members expressed some interest in exploring ways to reduce the compliance burdens associated with functions such as substantial shareholder reports and ATO reporting.

AGENDA ITEM 5: COMMITTEE REPORTS

Technical Committee Report (Meeting 13 December 2016)

The Chief Operating Officer advised members that two meetings of the ISO 20022 Technical Committee have been held since the last Business Committee meeting. He noted that:

- Both meetings were extremely well attended, representing a good cross-section of expertise.
- Work has commenced to examine 130 specific CHES messages around the business lines of clearing settlement holder management and holding movements and reporting.
- The Committee has begun to consider principles around key design features such as appropriate identifiers (e.g. local PIDs vs global BICS), as well as product and condition codes.
- Decisions around design issues will not only influence the post-trade environment but also potentially trading front ends and data products.
- Education and training will be an important element in the transition to ISO 20022.



- ASX accepts it has a role to play in educating the market around ISO, both technically and in relation to business functions and logic can it bring to operational processes. It is proposed to make training and education as flexible as possible to suit the needs of different groups.
- Around 10% of CHES messages don't map to existing ISO 20022 messages. The Committee will consider the pros and cons of seeking certification for new ISO messages or using 'ISO-like' message types in these cases.
- There will be a total of eight Technical Committee meetings this year.

AGENDA ITEM 6: ADMINISTRATION

a. Minutes from the 1 December 2016 meeting

The Chair noted that the minutes of the December Business Committee meeting were attached and reflected edits in response to one member's comments on the draft minutes. The Chair mentioned an error on page 9 of the minutes where a reference to 'November 2017' should have been 'December 2017'. No further changes to the minutes were requested.

b. Proposed 2017 Business Committee meeting dates

The Chair noted the proposal to increase the number of Business Committee meetings for 2017 from four to six. He asked members to note the proposed dates and indicate as soon as possible if there are any issues with the specific dates.

c. Other matters

There were no other matters.

NEXT MEETING

The next meeting is scheduled to be held on Thursday, 4 May 2017.

The meeting closed at 5.10pm.

Signed as a correct record of the meeting.

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

Chairman

A handwritten date '4/5/17' in blue ink, written over a horizontal line.

Date



Appendix A

RESOLUTIONS TABLED BY STOCKBROKERS AND FINANCIAL ADVISERS ASSOCIATION – BUSINESS COMMITTEE MEETING 2 MARCH 2017

Agenda 3A: The Business Committee Charter

- That the Charter be amended so that if decisions or recommendations are tabled that the Chair seek a vote from Members in order to establish “broad consensus”. The Chair's determination on “broad consensus” should be verbalised in the meeting and validated by Members.

Agenda 3A: The Code

- That the Code be amended to ensure changes in infrastructure continue to meet the needs of “Users” and not “market users”.
- That the Code be amended to specifically address the obligations to “comply” and recognise that “the Board will take actions in accordance with recommendations made by the governance committees”.
- That the Business Committee review the terms of reference for the Audit of ASX’s compliance with the Code.
- That consistent language be used clearly defining “customers”, “users”, “Key Users” “end users”.
- That after the Code is updated, the CHES replacement objectives be aligned, noting that CHES replacement sets as its highest priority to “meet the needs of Users”.
- Business Committee members take the term “Users” of CHES and ASX Clear and ASX Settlement Facilities to be:
 - Clearing & Settlement Participants
 - Approved Market Operators
 - Clearing & settlement facilities
- Business Committee members take the term “other relevant stakeholders” to be
 - Service providers for Users, namely Vendors
 - Registries as Agents for Issuers
 - Payment Providers
- Business Committee members believe Investors are not “users” or “end users” in the same way as Market Participants because they do not have access to the CHES system.