



# MINUTES

## BUSINESS COMMITTEE MEETING

Date	Time	Location
Thursday , 4 May 2017	12.00pm – 2.30pm	ASX Offices – Level 1, 20 Bridge Street, Sydney

Agenda Item	
1.	<b>Introduction</b>
2.	<b>Service and Financial Performance</b> a) Operating Performance Report
3.	<b>CHESS Replacement</b> a) Supplementary questionnaire b) Business requirements working groups
4.	<b>Code of Practice</b> a) Response from the Boards of ASX Clear and ASX Settlement b) Regulatory Expectations – Draft Audit Terms of Reference
5.	<b>Committee Reports</b> a) Technical Committee Report (meetings 7 February and 14 March 2017)
6.	<b>Administration</b> a) Forward work program updated b) Minutes from the 2 March 2017 meeting c) Other matters

**NEXT MEETING: Thursday 15 June 2017**



Members		
Company	Name	Job Title
ABN AMRO Clearing	Tapos Thakur	Chief Risk Officer
AFMA	David Lynch	Chief Executive Officer
ANZ	Peter Mullin	Head of Distribution ANZ SI, Wealth Australia
ASX	Peter Hiom	Business Committee Chair, Deputy CEO
Bank of America Merrill Lynch	Rhys Cahill	Global Markets COO
Bell Potter Securities	Dean Surkitt	Managing Director Retail
BNP Paribas	Luc Renard	Head of Clearing & Custody
Chi-X Australia	Mike Aikins	Chief Operating Officer
Citi	Miles O'Connor	Director, Direct Custody & Clearing Securities & Funds Services
CBA	Sheridan Thompson	Head of Strategic Development, CommSec
Credit Suisse	Winston Loke	Australia Equities COO
Deutsche Bank AG	Geoffrey Plaisted	Chief Operating Officer, Equities
Goldman Sachs	Jeremy Follett	Executive Director Operations
HSBC	Peter Snodgrass	Head of Direct Custody and Clearing
J.P. Morgan	Paul Cooper (Delegate)	Executive Director, Head of Equity Markets Operations
Macquarie Group	James Indge	Cash Equities Business Manager
Morgans	Daniel Spokes (Delegate)	Manager, Transactional Services & Settlement Systems
Morgan Stanley	Craig McGuire	Head of Operations
National Australia Bank	Greg Bowrey (Delegate)	General Manager, Self-Directed Wealth Products & Markets
NSX	Ann Bowering	Managing Director
Stockbrokers and Financial Advisers Assoc	Andrew Green	Chief Executive Officer
UBS	Conor Foley	Chief Operating Officer

Apologies: Mike Aitkin (Chi-X Australia); Rob Forbes (Pershing Securities); Tony Sacre (Sydney Stock Exchange)



ASX Management	
Name	Job Title
Amanda Harkness	Group General Counsel & Company Secretary
Tim Hogben	Chief Operating Officer
Hamish Treleaven	Chief Risk Officer
Eloise Wett	Executive General Manager, Operations
Cliff Richards	General Manager, Equity Post Trade Services
Nick Wiley	Deputy General Counsel, Post-Trade
Gary Hobourn	Senior Economic Analyst, Regulatory and Public Policy
Rodd Kingham	Senior Manager, Equity Post Trade Services



## **AGENDA ITEM 1: INTRODUCTION**

The Chair welcomed members and delegates to the second meeting of the year and noted that prior to the meeting one apology had been received from Tony Sacre (Sydney Stock Exchange).

## **AGENDA ITEM 2: SERVICE PERFORMANCE**

### **a) Operating Performance Report**

The ASX Chief Operating Officer spoke to the March quarter performance report noting that:

- Availability across CHES and the TAS was 100% for the quarter and on a rolling twelve-month basis.
- ASX (+3%) and Chi-X (+5%) had slight uplifts in the number of trades processed through the settlement facility compared to the December quarter, while NSX (40%) experienced a strong rise. SSX had nine zero value (free of payment) movements that were processed in the batch.
- Settlement value was relatively flat on the previous quarter.
- Overall trade value (on and off-market) decreased about 10% to a daily average traded of about \$6.2bn.
- The \$4.45bn cleared value was netted down to \$1.74bn of novated settlements on an average daily basis. Netting efficiency was 99.93% on volume and 60.8% on value, which is in line with historical norms.
- Overall, the daily settlement batch settled about \$9.2 billion on average - 80% sourced from bilateral or custodial-type provision of stock and cash, and 20% novated.
- ASX had four trade rejections based on some warrants and hybrid securities that were reported and subsequently cancelled. Chi-X had no cancellations in the quarter.
- Failed trade rates remained very low, 0.23% for the March quarter, down from 0.31% in December. This equates to around 179 fails a day out of 78,500 thousand settlements.
- There were no extensions to the settlement cut off period during the quarter.
- Daily average cash market margin was \$152m over the quarter, ranging between \$93m and \$297m (the latter related to quarterly index expiry).
- There were a few instances of delays in margin payments during the quarter. The shortest delay was one minute while the longest was for 18 minutes. The Chief Operating Officer reminded members that late payment of margin sends up a lot of red flags internally at ASX and the requirements are driven by the need to give certainty to the CCP and the other participants.
- mFund recorded 2,800 transactions compared to 2,400 the previous quarter, with a total value of \$67m. There are 170 funds on the platform with funds under management of around \$300m.

Members had no questions on the performance report



### **AGENDA ITEM 3: CHESSE REPLACEMENT**

#### **a) Supplementary questionnaire**

ASX's General Manager, Post-Trade Services provided an overview of the responses to the Supplementary Questionnaire on the business requirements for CHESSE replacement. The key takeaways from the responses were:

- Strong support for the current settlement batch arrangement;
- Participants place a high priority on reducing the direct and indirect costs of settlement. This includes improving processes for corporate actions, transfers and conversions to generate efficiencies for participants;
- Divergent views were expressed around the future structure of the CHESSE and the issuer sub-registers;
- No feedback against the adoption of ISO 2022. It was noted that the Technical Committee process had provided comfort to participants that had expressed some reservations with the extensive work program required to transition from CHESSE messages.

The Chair asked members if there were any other important matters that were missing from the summary as ASX wanted to make sure there were no other topics that should be considered during the working group phase.

One member asked if other asset classes would be included as part of CHESSE replacement, given the efficiencies associated with rationalising the number of settlement platforms. In response, it was noted that while the current working group processes will focus on cash equities this doesn't exclude a future discussion of other asset classes such as ETOs and fixed income (Austraclear) assets being included.

The Chair confirmed ASX's intention to make sure that design of CHESSE replacement doesn't preclude bringing in other asset classes at some point in the future.

He explained that an overarching theme of ASX's technology management program is to ensure any new technology platforms are able to accommodate multi-asset capabilities.

#### **b) Business requirements working groups**

The General Manager Post-Trade Services provided the Committee with a high level recap on the working group process. The role of the six working groups is to respond to the key priorities identified through the consultation process to date. That is, to produce a clear articulation of the problem to be solved and provide input to ASX on business requirements for that replacement of CHESSE. The working groups would also provide input on the prioritisation of the respective requirements based on a consensus or majority view among participants in the working groups.

At the completion of each working group a written summary of the business requirements will be provided to the Business Committee.

The General Manager, Equity Post-Trade Services advised that the first working group meeting would discuss: account structures; the role of name on register versus a CSD model; and participant models.



He noted that in response to questions from some working group members on why the future of name on register was being debated, he had explained that the matter had been raised by a number of stakeholder during the initial consultation. It was important to allow a broad range of stakeholder views to be discussed and different perspectives acknowledged during the working group process.

While there was robust discussion in the first working group on the name of register and omnibus account structures, it was concluded that CHES replacement should support all existing structures. A Business Committee member who had attended the first working group meeting confirmed that there was open discussion, reflecting the range of stakeholders present.

Another Business Committee member asked for confirmation that the working groups were not making decisions on final business requirements. The General Manager, Equity Post-Trade Services confirmed that the working group will provide input for ASX to consider on high level business requirements.

The Business Committee will be provided with the output of the working groups to enable members to provide their views on the working group input in advance of ASX considering 'Day One' requirements.

ASX will also consider practical mechanisms to communicate the output of the working groups more broadly and in a timely manner.

#### **AGENDA ITEM 4: CODE OF PRACTICE MATTERS**

##### **a) Response from the Boards of ASX Clear and ASX Settlement**

ASX's Group General Counsel explained that the Boards of ASX Clear and ASX Settlement had considered the recommendations from the last Business Committee meeting. They had formally responded in writing to the Committee indicating that they:

- Accepted the proposed changes to the Committee Charter and that these changes would be reflected in the final Charter.
- Accepted drafting changes to the Code to reflect that the terms of reference for the annual external audit would be considered by the Business Committee.
- Did not accept the proposed changes to the Code of Practice to require the Boards to take actions in accordance with Business Committee's recommendations. The Boards confirmed that, where they do not accept particular Business Committee recommendations, they would continue to formally respond to the Committee to explain their decision (a 'comply or explain' approach).
- Accepted drafting recommendations with regards to the definition of the 'users' of CHES in the Code of Practice where they are consistent with the use of the term 'users' in the Council of Financial Regulator's regulatory expectations.
- Did not accept changes to the Code of Practice where a narrower definition of 'user' was proposed as it would not be consistent with the Regulatory Expectations.

One member raised a concern in relation to the revised Business Committee Charter. In particular, the proposal that industry associations should confirm which of their members support specific recommendations. He noted that industry groups operate on the basis of collective decision making and very often when decisions are made by committees, they involve a range of different views and



compromises to reach a consensus outcome. This would make it problematic to identify individual positions. This concern was shared by another Business Committee member.

ASX's Group General Counsel acknowledged the point and indicated that this would be addressed in the final Charter.

#### **b) Regulatory Expectations – Draft Audit Terms of Reference**

ASX's Group General Counsel noted the Business Committee paper setting out the terms of reference for the annual external audit. She explained that this was the result of discussion with the independent auditor on both the audit standard to be applied and the way in which the audit will be conducted. She noted that the audit report will be produced as input for the regulators to determine ASX's compliance with the regulatory expectations. The regulators have the power to request additional information if they consider it necessary.

The Chair asked members if they had any comments on the draft terms of reference. On the basis that no comments were provided, the Chair confirmed that the terms of reference would be finalised and sent to the auditor following the meeting.

### **AGENDA ITEM 5: COMMITTEE REPORTS**

#### **a) Technical Committee Report (meetings 7 February and 14 March 2017)**

ASX's Chief Operating Officer informed Committee members of the progress of the work of the Technical Committee on ISO20022. He noted that:

- There is very broad stakeholder representation at these technical committees. ASX has also been using mechanisms such as webinars to provide flexibility as to how people engage in these discussions. The next meeting will be held in Melbourne.
- The Technical Committee work has moved beyond the basics of ISO 2022 messaging and into more detailed, technical specifications starting with high volume messages such as trade notification and bilateral settlement messages. The Committee has also provided some feedback in relation to that mapping and to reporting messages which impact a lot of participant business processes.

He stressed the importance of organisations getting involved in these meetings given specific design features of the draft specifications are being determined. He acknowledged that the Technical Committee has also taken a lot of learnings from the local work associated with developing the new payment platform and Swift Consulting have helped frame how the project should be progressed.

ASX has commenced a training program around ISO20022 standards and organisations were encouraged to get interested staff involved, as the training is pitched at different levels of technical understanding, with more advanced sessions planned for later in the year.

It was noted that there are going to be upstream and downstream impacts of decisions being made on the approach to message design (e.g. changes to security and participant codes). This will require technology development at the front (trading) and back (post-trading) end systems.

In response to a question from a Business Committee member on the Technical Committee's progress, ASX's Chief Operating Officer noted that the group is around 60-70% through the 130 (out of 477)



messages examined so far. Drafts of the proposed messages have been made available for review/comment through the My Standards website.

A member asked if organisations should be devoting additional technical resources to ISO messaging as decisions are being taken on key design issues. The Chief Operating Officer agreed that it was approaching the point in the project that more technology staff (including systems vendors) needed to be involved in the Technical Committee's deliberations.

The date for the first lodgement of messages for registration by the ISO Registration Authority is June 2018.

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

##### **a) Forward work program updated**

The Chair noted that the forward work plan, as set out in the papers largely reflects the CHES replacement process. He invited members to bring forward any other clearing and settlement matters that the Committee should consider.

He acknowledged that there may be issues that come out of the working groups that could be addressed separately to the CHES replacement project. He cited, as an example, where corporate actions STP fits into the broader technology replacement program.

##### **b) Minutes from the 2 March 2017 meeting**

The minutes of the 2 March meeting were accepted without change.

##### **c) Other matters**

The Chair asked the Executive General Manager, Operations to provide Committee members with an overview on the upcoming ASX customer survey. She advised members that the next survey would be conducted in the next few weeks and would focus on measuring service performance. This survey will focus on measuring changes since last year's survey and gaining an insight into whether customers have observed improvements in service quality and areas where there is room for more improvement.

The survey will be conducted by an independent firm and ASX will only see anonymised responses. The survey results will be shared with the Business Committee later in the year.

#### **NEXT MEETING**

The next meeting is scheduled to be held on Thursday, 22 June 2017.

The meeting closed at 1.15pm.

Signed as a correct record of the meeting.

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

Chairman

23/6/17

Date