



MINUTES

BUSINESS COMMITTEE MEETING

Date	Time	Location
Thursday , 3 August 2017	12.00pm – 2.00pm	ASX Offices – Level 1, 20 Bridge Street, Sydney

Agenda Item	
1.	Introduction
2.	Service and Financial Performance a) Operating Performance Report
3.	Clearing and Settlement Infrastructure a) CHES Replacement – Business Requirement Working Groups b) Corporate Action STP – Phase 2 c) CHES replacement process d) Technical Committee Report
4.	Administration a) Minutes from the 4 May 2017 meeting b) Forward work program c) Other matters

NEXT MEETING: Wednesday 4 October 2017



Members		
Company	Name	Job Title
ABN AMRO Clearing	Barry Parker	Chief Executive Officer
AFMA	David Lynch	Chief Executive Officer
ANZ	Andrew Koudrin (delegate)	Head of Execution Assurance and Middle Office
ASX	Peter Hiom	Business Committee Chair Deputy CEO, ASX
Bank of America Merrill Lynch	Mr 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
Commonwealth Bank of Australia	Sheridan Thompson	Head of Strategic Development, CommSec
Credit Suisse	Winston Loke	Australian Equities COO
Deutsche Bank AG	Geoffrey Plaisted	Chief Operating Officer, Equities
Goldman Sachs	Jeremy Follett	Executive Director Operations
J.P. Morgan	Steve Hacker(delegate)	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
NSX	Ann Bowering	Managing Director
Pershing Securities	Rob Forbes	Chief Executive Officer
Stockbrokers & Financial Advisers	Andrew Green	Chief Executive Officer
Sydney Stock Exchange	Geoff Williams	Chief Executive Officer
UBS	Conor Foley	Chief Operating Officer

Apologies: Peter Snodgrass (HSBC), Nathan Walsh (NAB)



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



AGENDA ITEM 1: INTRODUCTION

The Chair welcomed members and delegates to the fourth meeting of the year and noted that prior to the meeting apologies had been received from Nathan Walsh (National Australia Bank) and Peter Snodgrass (HSBC). There were also a number of delegates representing members who were unable to attend: Andrew Koudrin (ANZ); Geoff Williams (SSX); Steve Hackers (JP Morgan); and Daniel Spokes (Morgans).

AGENDA ITEM 2: SERVICE PERFORMANCE

a) Operating Performance Report

The ASX Executive General Manager, Operations spoke to the June quarter performance report noting that:

- Availability across CHES and the TAS was 100% for the period.
- ASX (+6.5%), Chi-X (+17%), and NSX (+13%) saw increases in the number of trades processed through the settlement facility compared to the March quarter, while there was a decline in SSX settlement activity.
- Overall trade value (on and off-market) increased 9.7% to a daily average traded of \$6.5bn.
- Daily average cleared value rose from \$4.5bn to \$4.9bn with netted value up from \$1.74bn to \$1.92bn. Netting efficiency was steady at 99.92% on volume and 61% on value.
- The average daily settlement value was \$9.9 billion, up from \$9.2 billion previously.
- ASX had a dozen trade rejections and Chi-X had none in the period.
- Failed trade rates remained very low around 0.3% for the period, marginally higher than the March quarter. This equated to around 260 fails a day out of 80,000 settlements.
- There were no extensions to the batch settlement cut-off time during the quarter.
- Daily average cash market margin was \$168m over the quarter, with a high of \$342m on 16 June.
- There were no instances of delays in margin payments during the quarter.
- There were 3,500 transactions (up 19%) worth \$103m (up 51%) through the mFund service in the quarter.

Members had no questions on the performance report

AGENDA ITEM 3: CLEARING AND SETTLEMENT INFRASTRUCTURE

a) Business requirements working groups

The Executive General Manager Equity Post-Trade noted that the work of the corporate actions working group was largely completed following the last of the five two-hour sessions. Eight high-level business requirements have been identified so far (set out in the Business Committee papers) and there are additional requirements that still need to be reviewed by members.

The primary themes coming out of the corporate action working group were the high priority to be afforded to: errors and duplication of processes; the lack of standard processes in some areas and mandatory electronic communication channels.



The last two sessions focused on a few topics in detail, including cum entitlement balances and deferred settlement.

On cum entitlement balance treatment a number of matters were identified in the working group and these will be considered further. The working group discussion highlighted that different stakeholders (e.g. institutional and retail participants, issuers, investors, share registries and custodians) have different viewpoints. A participant member noted that while he acknowledged there are different views on cum entitlements, he wanted to emphasise the importance of protecting retail investors' interests and supported their retention. Another participant member stated that his organisation supported removing cum entitlement balances.

The Executive General Manager, Post Trade responded that investor protection will be front of mind as these issues are worked through in more detail.

Discussion around deferred settlement trading was touched on briefly in the corporate action working group but the topic will be moved to the settlements working group for more detailed consideration.

Non-ASX AMO representatives objected to not being invited to participate in the corporate action working group (despite making requests to join) as they believed the content being discussed is relevant to their issuers and participants. They expressed the view that the separate AMO working group established by ASX to gather their input was ineffective and they did not feel that they had equal access to contribute to the development of requirements across the market or to hear the views of all other participants about corporate action processes.

The Deputy General Counsel, Post-Trade responded that the separate AMO working group was established to consult on a wide range of AMO clearing and settlement arrangements that are probably not relevant to the broader working group audience. He noted that if there was a concern that insufficient time has been scheduled for these meetings then additional time can be allocated to feed AMO views into the business requirement inputs. He noted AMOs already have access to all of the CHES working group material and are able to use it to consult with their issuers and participants to feed back into the AMO working group.

In response to the discussion, a member proposed the Committee recommend to the ASX clearing and settlement boards that AMOs should be invited to all working groups going forward. The Chair sought the views of members and there was a broad consensus that this recommendation be put to the relevant ASX Boards. **[Action Item 1]**

The Chair asked if there were any observations members wanted to raise in relation to transfers and conversions, the subject of the next working group given it will be another complex and controversial issue. It was noted that two meetings of the working group are currently scheduled.

No member raised any issues.

A member asked about the prospects of achieving a standardised notification of corporate action events through mandating listed entities to provide information in a standard, automated process that can be passed through to participants, custodians, and any other users.

The Executive General Manager, Post-Trade noted that a pre-condition to achieving this outcome would be extensive consultation with (and support from) issuers, regulators and other industry stakeholders as



occurred with the original corporate actions STP project. That said the aim will be to drive out as much manual processing as possible through end-to-end STP processing.

b) Corporate Action STP – Phase 2

The Manager, Equity Post-Trade provided a brief overview of the earlier phases of the corporate action STP project.

The phase one initiative went live in September 2014 covering the highest volume corporate events (dividends, return of capital cash, reconstructions and interest payments) based on mandated standard timetables. Around 97% of those corporate action events (with limited exceptions for ETF issuers) are announced by the STP process. Further STP efficiencies were implemented in 2015.

STP requires standardised information to create or update an event in the central database which is then pushed out through ASX's reference point or ISO 20022 product. The complete STP process currently takes about 5-8 seconds.

The Business Committee has previously discussed the scope for STP phase two, focusing on the five next most significant corporate actions relating to capital raising.

There are clear synergies between the matters being discussed in CHES replacement working groups and corporate actions STP. For example, many of the same people across the industry would work on both projects. There is also information coming through the CHES replacement working groups that can feed into the scoping information for STP.

Building on the previous Business Committee priorities, ASX anticipates expanding STP phase 2 to cover all the events that ASX currently supports.

The working group discussed whether it was possible to provide STP support for other events such as elections, payment distributions, etc. but some of those matters are not currently within scope for STP. However, some actions have been taken offline to look at whether there's an appetite for, and value in, ASX moving into services that support of activities such as proxy voting.

STP phase 2 will focus on capital raising announcements (rights issues, bonus issues and other capital raisings), including the request for quotation of additional securities (Appendix 3B). The business requirement would be to STP from the announcement through to the quotation process for those additional securities.

It was stressed that any changes in these processes would need to be subject to significant stakeholder engagement and regulatory approval processes. Significant consultation with issuers was undertaken during STP phase one, including through a working group involving around 30 issuer representatives, where there was an exchange of views between issuers and participants/other users of the corporate action information.

The Executive General Manager Post-Trade noted that issuers are already represented in the corporate action working group by the Governance Institute of Australia, the Australian Investor Relations Association and share registries. There has already been feedback around the impact on issuers of any changes.



The Deputy General Counsel, Post-Trade noted that at the last AMO working group meeting, ASX initiated a conversation about how the benefits of STP might also be extended to other listing venues.

ASX will convene a working group to move forward with discussing STP phase two. This group would draw on the existing corporate action working group members expanded to include other key stakeholders. There has been feedback from stakeholders that the high resource requirements associated with the existing working groups and ISO 20022 technical committee means there is little appetite for another working group process before the end of this year. A new working group would commence early next year and it is expected the whole project would run for 18-24 months. **[Action Item 2]**

The Chair asked members about the scope of the STP project and whether they had any observations around timing issues that should be considered as ASX develops a more detailed work program.

Members raised no issues.

c) **CHES replacement process**

The Executive General Manager Post-Trade noted there are two key elements to CHES replacement and these would be the subject to discussions at the October and November Business Committee meetings. **[Action Item 3]**

The first element is whether to proceed with distributed ledger technology. In reaching this decision ASX and its technology partner is building a core set of requirements and then testing them in a production-like environment. There are three key criteria in assessing the technology:

- does it have the functional capability to model business problems and solve them?;
- does it meet all the non-functional requirements such as its redundancy characteristics, speed of throughput, how many transactions can be processed per unit of time and security (cybersecurity and privacy)?; and
- is the software provider able to produce high quality software and do it in a predictable, repeatable fashion?

In October, ASX will present the Business Committee with a summary of the information used to assess DLT against the three criteria set out above and, subject to availability, the high-level findings from a third-party assessment of the architectural security of the technology.

A member asked if the third-party review of the technology could be extended to examine the economics of the technology investment decision, including comparisons with alternative off-the-shelf technology. The Chair responded that the Board's investment decisions include commercial-in-confidence matters between ASX and its software vendor and would not be disclosed.

A member asked questions around the software agreements between ASX and Digital Asset (DA), the structure of the proposed DLT solution and what that implies for user connectivity options and the assessment of security characteristics. The Chair stated that any questions going to contractual arrangements between ASX and DA were commercially confidential. He also noted that while decisions on the final structure of the solution had not yet been taken, ASX will assess a range of permutations that would enable ASX to assess the security characteristics of any proposed DLT solution. The Executive General Manger, Post-Trade noted that any replacement system would maintain a centralised message-



based architecture so that users could continue to connect as they do today, but through ISO-based messages.

A member asked for an update on the progress in assessing the technology. The Executive General Manager, Post-Trade noted that the assessment was on-track, although much of the heavy lifting is back-ended in the process. The process for working with our software partner to produce code has been going well and the analysis of both the functional and non-functional aspects is promising but more intensive development and testing will occur over coming months.

The second element is the functional scope of what the system will do in its first release. The new contemporary technology will also facilitate subsequent change in a lower risk, lower-cost fashion than the existing CHES system.

In addition to the consultation underway (including six working groups and the ISO 20022 Technical Committee) the November Business Committee will be asked to provide its input on the prioritisation of the business requirements coming out of each working group. Following the completion of the fifth working group, all attendees from the working groups will be asked to indicate their priorities amongst all the requirements. These will then be pulled together and ASX will share that at the November meeting for review. That meeting will also receive a paper summarising ASX's business requirements on clearing, settlement and some other post-trade services and the outputs of the ISO 20022 Technical Committee.

A member asked if the papers for the October and November meetings could be distributed well in advance to allow time for members to digest the material. The Chair indicated that ASX would try and give as much notice as possible.

A member sought clarification on what the Business Committee is expected to reach conclusive decisions at the October and November meeting? In particular, if ASX will be seeking an endorsement from the Committee? He thought that this would be problematic.

The Chair responded that the October meeting is more an information sharing session on the assessment of DLT. In November, the Business Committee will have an opportunity to provide their views on the prioritisation of the functional requirements and, if necessary, make recommendations on those priorities to our clearing and settlement board.

A member asked if at the end of the working group processes the outputs will be subject to a further round of public consultation to enable others to contribute to the process. The Chair indicated that ASX is considering the best way to collect input from stakeholders not represented on the Business Committee to ensure that a broader group have the opportunity input on the day one business requirements.

A member asked for any guidance that could be provided to assist participants with planning their technology budgets into next year?

The Executive General Manager, Post-Trade acknowledged the importance of users having adequate information and lead times to plan resourcing. He indicated that when the day one scope is announced a technology plan with indicative milestones will be released. The precise timing will be dependent on the feedback received from users on the transitional period they require. He suggested that users may need to budget for some analyst and project resources to commence planning work next year with the main work likely to occur between 2019 and 2021.



d) Technical Committee Report

The ASX Chief Operating Officer reminded members that there had been a discussion at the last Business Committee meeting of the 6 June Technical Committee meeting. He noted that a subsequent Technical Committee meeting was held on 18 July focused on:

- what CHES messages could be removed from the new ISO message suite, for example reporting messages that have been used very rarely, if at all, over the past couple of years;
- the ability for users to opt in or out of receiving some messages that are not relevant to their business operations. Further consideration of this matter will be referred back to one of the working groups;
- an agreement to adopt a single date and time format based on coordinated universal time (UTC), consistent with the New Payments Platform in Australia and T2S in Europe; and
- bespoke functionality that CHES messages cater for that aren't undertaken globally and if industry wants to lobby the ISO Standards Committee for registration as a global standard.

AGENDA ITEM 4: ADMINISTRATION

a) Forward work program updated

The Committee noted the forward work program and the Chair reminded members to advise ASX if they had any additional items for the program.

b) Minutes from the 22 June 2017 meeting

The minutes of the 22 June meeting were approved without change.

c) Other matters

None

NEXT MEETING

The next meeting is scheduled to be held on Wednesday, 4th October 2017.

The meeting closed at 1.40pm.

Signed as a correct record of the meeting.

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

Chairman

A handwritten date '12. 10. 17' in blue ink, written over a horizontal line.

Date