

# Minutes

## Business Committee Meeting

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<b>Date</b>	28 September 2018	<b>Time</b>	12:00pm – 2:00pm
<b>Location</b>	ASX Offices – Level 1, 20 Bridge Street, Sydney		

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### 1. Service Performance

- a) Cash Market Clearing and Settlement - Operating Performance
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### 2. Regulatory Expectations

- a) Annual Cash Equities Clearing and Settlement Reports
    - Report on cash equities clearing and settlement services developments
    - Audit report on ASX's compliance with the Regulatory Expectations.
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### 3. CHES Replacement Project

- a) CHES Replacement
    - Software development update
    - Overview of new Day 1 scope and implementation plan following the consultation
    - Customer engagement – upcoming activities
  - b) ISO 20022 Technical Committee Report and Minutes
    - Members will receive reports from the June, July & September meetings.
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### 4. Administration

- a) Minutes from the 5 July 2018 Business Committee Meeting
  - b) Forward work program
  - c) Other matters
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### 5. Next Meeting - 29 November 2018

### Business Committee Members

Company	Name	Job Title	Apologies
ABN AMRO Clearing	Tapos Thakur (delegate)	Chief Risk Officer, APAC	Barry Parker
ACSA	Rob Brown	Chief Executive Officer	
AFMA	David Lynch	Chief Executive Officer	
ANZ	Peter Mullin	Managing Director, Pensions & Investments	Peter Mullin
ASX	Peter Hiom	Business Committee Chair, Deputy CEO	
Bank of America Merrill Lynch	Andree Hindmarsh (delegate)	Director Global Markets Technology	Rhys Cahill
Bell Potter Securities	Rodd Kingham	Head of Operations – Transformation	
BNP Paribas	Mark Wootton	Head of Custody Product, Aust & NZ	
Chi-X Australia	Mike Aikins	Chief Operating Officer	
Citi	Swaminath Nagarajan (delegate)	Vice President Business Unit Manager	Miles O'Connor
Commonwealth Bank of Australia	Sheridan Thompson	Head of Strategic Development, CommSec	
Credit Suisse	Winston Loke	Australia Equities COO	Winston Loke
Deutsche Bank AG	Geoffrey Plaisted	Chief Operating Officer, Equities	
Goldman Sachs	Yen Le	Executive Director	
HSBC	Peter Snodgrass	Head of Direct Custody and Clearing	
J.P. Morgan	Jonathan Evans	Head of Custody and Markets Operations	
Macquarie Group	James Indge	Cash Equities Business Manager	
Morgan Stanley	Craig McGuire	Head of Operations	
Morgans	Peter Chisholm	Manager, Transactional Services & Settlement Systems	
National Australia Bank	Greg Bowrey	General Manager, Self-Directed Wealth Products & Markets	
NSX	John Williams (delegate)	Head of Admissions	Ann Bowering
Pershing Securities	Leigh Conder	Chief Operating Officer	Leigh Conder
Stockbrokers and Financial Advisers Association	Andrew Green	Chief Executive Officer	
Sydney Stock Exchange	Antony Tolfts	Listings Director	
UBS	Scott Hanlon (delegate)	Head of Investment Bank Operations	Conor Foley

**ASX Management**

<b>Name</b>	<b>Job Title</b>
Tim Hogben	Chief Operating Officer
Daniel Moran	General Counsel
Hamish Treleaven	Chief Risk Officer
Cliff Richards	Executive General Manager, Equity Post Trade Services
Sally Palmer	Deputy General Counsel
Con Korkofigas	Senior Manager and Senior Legal Counsel
Gary Hobourn	Senior Economic Analyst, Regulatory and Public Policy
Karen Webb	Senior Manager, Equity Post Trade Services
Keith Purdie	Senior Manager, Equity Post Trade Services
Suzy Munro	General Manager, Post Trade Operations
Katie McDermott	General Manager, Equity Post Trade

## INTRODUCTION

The Chair welcomed members and delegates to the third meeting of the year, including new representatives Rodd Kingham (Bell Potter) and Antony Tolfts (Sydney Stock Exchange). He noted that Peter Mullin (ANZ), Winston Loke (Credit Suisse) and Leigh Conder (Pershing Securities) had sent apologies and a few members had nominated delegates to attend on their behalf: Tapos Thakur (ABN AMRO Clearing), Andree Hindmarsh (BAML), Swaminath Nagarajan (Citi), Scott Hanlon (UBS) and John Williams (NSX).

Three members dialled in to the meeting: Yen Le (Goldman Sachs), Greg Bowery (NAB) and John Williams (NSX).

## AGENDA ITEM 1: SERVICE PERFORMANCE

### a) Operating Performance Report

The ASX General Manager, Post-Trade Operations spoke to the September quarter performance report<sup>1</sup> noting that:

- Overall activity levels are broadly in line with the previous quarter.
- Netting and settlement efficiency remains high.
- Fail rates continued to be very low for the July-August period (0.21%).
- There was a significant increase in mFund transactions during the quarter and there are over 200 funds on the platform.

The ASX General Manager, Post-Trade Operations also updated members on two other matters:

- Recent changes to the registered holder collateral cover authorisation (RHCCA) process which links a customer's ETO account with their HIN to allow the stock to be used as collateral for an options position. Following recent regulatory approvals the requirement for paper forms will be removed from 1 March 2019 and replaced with an email-based process which should deliver process efficiencies for participants.
- The impact the 30 August RBA power outage (also affecting RITS) had on ASX and its customers. Daily settlement of cash equities commenced as normal on that day but was paused at the point prior to where payment instructions are sent to RITS for finalisation. At 3:00pm ASX manually entered the cash payments into RITS and the settlement batch was completed by 4:00pm. CHES end of day cut-off was extended from 7:00pm to 8:00pm.
  - ASX is reviewing, in conjunction with CS participants and payment providers, a number of processes (as they apply to both CHES and Austraclear) following the outage. For example, whether it would be possible to rewind the CHES batch at different points in the process and whether there are other options to fund settlement instructions where RITS is unavailable.
  - A member supported the need to review CHES processes to reduce uncertainty in similar circumstances in the future by giving participants some idea how particular scenarios might be addressed.

## AGENDA ITEM 2: REGULATORY EXPECTATIONS

### a) Annual Cash Equities Clearing and Settlement Reports

The ASX Executive General Manager Equity Post-Trade Services outlined the contents of the annual report provided, under the regulatory expectations, on developments in ASX's cash equity settlement services. He noted that in addition to the substantial work undertaken on CHES replacement there were a number of other enhancements progressed during FY18 including:

- ISIN standardisation to ensure compliance with global standards, particularly around the re-use of ISINs.
- Changes to assist participants with MIFID compliance.

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<sup>1</sup> Up to end August 2018

- Changes to trade registration settlement dates under the Trade Acceptance Service and changes to AMO operational procedures.
- Changes to facilitate the retaining of the user identification code (UIC) when there is a change in share registry, reducing the time and effort necessary to affect a change.
- Changes to the process involved in processing custodian off-market transfers between sub-registers. Members were updated on the recent consultation in relation to this initiative. A total of 12 responses had been received. While there was broad support for the removal of the requirement for a signed authorisation form, some respondents supported additional changes or raised further considerations to address investor protections. ASX is considering the submissions received and will also engage with regulators prior to finalising its position.
- Some work has been commenced on improving the processes for the acceptance of off-market takeover offers to address issues raised by share registries around confirming a holder's intentions.

Members had no questions on the annual service developments report.

The ASX Senior Economic Analyst, Regulatory and Public Policy, provided an update on the external audit of ASX's compliance with its Regulatory Expectations obligations:

- PWC has completed the audit and a report of the findings are included in the Business Committee meeting pack. The audit examined ASX's policies and procedures to ensure compliance with its obligations.
- The audit concluded that ASX had complied in all material respects with the regulatory expectations for the year ending 30 June 2018. There were no recommendations for changes to ASX's procedures.
- The auditors discussed their findings with the ASX Clear and ASX Settlement Boards and a copy of the audit report was provided to the CFR agencies for their information.
- As part of the process Business Committee members had received a questionnaire and a total of 11 responses were received by PWC. There were no instances raised in these responses of any non-compliance with the Regulatory Expectations.

A member asked whether, and how, the views expressed by members to the questionnaire were represented to the ASX Boards and whether any feedback could be provided to the Committee on the suggestions made around improving existing processes. In particular, he requested a process where feedback on any issues raised by members could be discussed. This could include, for example, the auditors or a Board member attending the Business Committee to discuss the audit findings.

The ASX Group General Counsel noted that in their presentations to the Board, in addition to their findings on compliance, the auditors provided a summary of other views received and responded to questions on the audit. He declined to describe that internal Board discussion in more detail. It was noted that the purpose of the audit is to assess compliance with the regulatory obligations rather than a broader information gathering exercise.

The Chair summed up the discussion by agreeing that useful points had been made during the discussion and that, while some of the supplementary issues raised during the process might fall outside the scope of the audit, ASX would consider how best to capture member feedback on ways to improve the Committee's operations and facilitate discussion on matters raised.

A member questioned whether there was any significance in the fact that the report stated that there were 'no material' instances of non-compliance and if this implied there may have been some non-material instances. The ASX Group General Counsel noted that the scope of the audit was to identify 'material' breaches and there was no other significance in the choice of words. It was also confirmed that the auditor had expressed no concerns during the course of the audit and had made no recommendations for changes to existing processes.

### AGENDA ITEM 3: CHESSE REPLACEMENT PROJECT

#### a) CHESSE Replacement

The ASX General Manager Equity Post-Trade Services advised members that the scheduled first drop of CHESSE replacement software into the customer development environment is on track for delivery in April 2019 with the first tranche of technical documentation being released in December 2018.

She noted that future software drops and documentation releases will occur iteratively every 6-8 weeks and ASX will be providing a six-month forward program of upcoming releases.

Several DAML (Digital Asset Modelling Language) training sessions have been held for clearing and settlement participants and their vendors on how to develop templates and build DAML workflows. She invited any other participants or vendors who are interested to contact ASX or Digital Asset to arrange a training session.

The ASX Executive General Manager Equity Post-Trade Services updated the Committee on the changes to the CHESSE replacement scope and implementation plan ASX has announced in response to the feedback received to the recent consultation.

ASX had listened closely to feedback that the proposed plan was very aggressive in terms of both its scope and implementation timeline. Taking that feedback on board, ASX spent time working out the benefits to users of each measure, the cross-dependencies between some of the proposed functionality as well as the need for further consultation with users and regulators to determine which enhancements could be deferred from the Day 1 scope.

A total of seven enhancements were deferred to after the industry has transitioned to the replacement system. ASX will continue the necessary preparation work on these items but they will be rolled out to users at a later date. He also confirmed that ASX is now targeting an April-March 2021 cutover window to the new system.

He also called-out and responded to a number of questions/issues that had been raised in consultation responses:

- A request for more clarity on pricing of connectivity options to assist participants in making decisions.
  - It was noted that there will be no costs associated with access to the development and test environments for the node-based option.
  - ASX is currently working to develop, as soon as possible, a pricing structure for the connectivity models. That is, a traditional message-based connectivity and DLT node integration which provides a range of other real-time services and benefits to users. There may be a menu of options within the DLT connectivity model and these still need to be defined before a pricing structure can be developed.
- A number of respondents identified the information they will require to conduct a meaningful cost-benefit analysis on the different options. Members stressed the importance of understanding the pricing structure for them to be in a position to make connectivity decisions and to commit resources to the development environment when the first set of technical documentation is released.
  - ASX acknowledged the need to provide the necessary information (particularly around pricing and technical information on the node-based option) as soon as possible.
- A request for a detailed program of technical documentation releases.
  - Technical documentation will be released at least three months prior to each incremental software drop into the customer development environments.
  - ASX and Digital Asset, are currently targeting seven software releases leading up to Day 1 with a complete system build by end March 2020, twelve months prior to go live.
  - To assist participants and their technology vendors with planning, ASX will provide a six-month forward view of the upcoming document releases. Providing a longer term program would inhibit the ability to be efficient and flexible in sequencing and producing the software.

- Concerns from some respondents around the decision to have a single cut-over weekend to the new system.
  - Based on the current timeline, there will be a 12 month period available for exhaustive testing on a functionally complete system. This should provide a sufficient period for ASX and participants to become comfortable with the new system.
  - There will be a number of dress rehearsals and full fail over testing based on a number of scenarios conducted.
  - The process will be similar to that used for the transition to the new futures trading platform.
  - The actual test environment will become the production environment at the cut-over weekend. The same infrastructure, networking and the software will be populated with the migration data on the cut-over weekend.

A member expressed concerns that a large proportion of participants rely on a small number of technology vendors to provide connectivity to the clearing and settlement system and the combination of the need to come to grips with a new technology and the iterative nature of software releases may be problematic for achieving the proposed timeline.

In response it was noted that the vendors are highly engaged through the ISO 20022 Technical Committee and have a high level of understanding of what the new message schemas look like. A majority of third-party vendors have also attended the DAML software training and have DAML software development kits.

The Chair acknowledged that ASX needs to work closely with the vendors between now and when the new platform is completed to mitigate these risks.

The Senior Manager, Equity Post-Trade services provided members with an overview of upcoming stakeholder engagement activities over the next few months.

- On 3 October ASX will host a webinar update which aims to answer some common questions and correct some common misconceptions, particularly with regards to connectivity options. There are currently about 250 people already registered for the webinar.
- A second webinar on 18 October will drill down into the detail for the direct integration option. For example: the application layer versus the platform ledger; the ledger API (its functions, data streaming and query capability); details around nodes as a managed service; and the benefits of taking a node.
- The two webinars are precursors to the connectivity and integration working group that should commence in late-October. Four working group meetings are planned for prior to Christmas, including meetings focussing on:
  - direct integration to node;
  - ISO connectivity messaging using the AMQP protocol over ASX Net;
  - ISO connectivity messaging using SWIFT Net; and
  - the contents of the technical documentation when it is released in December.
- Working group meetings will recommence at the end of January and will deal with some of the other matters outlined in the consultation response document.
- The implementation transition working group will commence its work in the first quarter of next year.
- A number of focus groups will be held on specific system enhancements, starting in late October, focussing on account structures, hierarchies and the standardisation of holder registration details.
- Other focus groups including those covering new settlement instruction features; settlement locks for CHES holdings; and settlement locks for issuer sponsored holdings.
- The first meeting of the corporate action STP working group meeting will kick off in mid-October.

In response to a member's request ASX agreed to provide a calendar of events on its CHES replacement page setting out the upcoming meetings.

**b) ISO 20022 Technical Committee Report and Minutes**

The ASX Chief Operating Officer reported that there continues to be considerable engagement from those attending the Technical Committee with a lot of constructive feedback received on the suite of messages that will determine the system workflows and how users will interact with the system.

To date the focus has been on the ISO 20022 messages that will deliver existing functions but this is shifting to the messages necessary to support the enhanced features.

The 533 base CHES messages have been reduced to around 450 and these have been mapped to around 89 base ISO messages – a significant efficiency for the messaging protocol. Of those 89 messages around 33 will require an approach to the ISO standards body requesting some form of change request. Given feedback from ASX's partners (SWIFT) we are confident that approval will be forthcoming. There are a further 14 brand new messages that currently don't have an equivalent ISO standard, mainly relating to the way CHES payments are processed. A decision will need to be taken on whether to go through the process of seeking certification for those messages from the standards board or just have like messages in those instances.

The first release of technical documentation will set out a lot of the settlement messaging relating to core functions, including unilateral and bilateral messaging.

There were no questions on the Technical Committee reports.

**AGENDA ITEM 4: Administration**

**a) Minutes from the 5 July 2018 Business Committee Meeting**

The minutes of the 5 July 2018 meeting were approved without further change.

**b) Forward work program and BC Meeting dates for 2018**

The Chair noted that the forward work program focuses on CHES replacement and the Corporate Actions Project but that it remained open to members to suggest any other agenda items.

**c) Other matters**

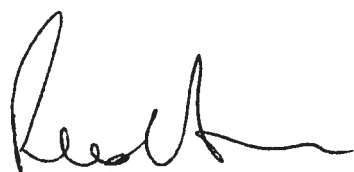
There were no other matters raised by members.

**Next meeting**

The next meeting is scheduled to be held on 29 November 2018.

The meeting closed at 1.30pm.

Signed as a correct record of the meeting.



Chairman

14/12/18

Date