

Minutes

Business Committee Meeting

Date	28 March 2018	Time	12:00pm – 2:00pm
Location	ASX Offices – Level 1, 20 Bridge Street, Sydney		

1. Service Performance

- a) Cash Market Clearing and Settlement - Operating Performance
-

2. CHES Replacement Project

- a) DLT update

An update on the work following ASX's announcement that it would be proceeding with a DLT-based system.

- b) Business Requirements Update

An update on the consultation process surrounding business requirements and the structure of future work to implement CHES replacement.

- c) Corporate Action STP Phase 2 Update

An update on the proposed work program to progress Phase 2 of corporate action STP enhancements.

- d) ISO 20022 Technical Committee Report and Minutes

Members will receive reports from the 21 November 2017 and 6 February 2018 meetings.

3. Administration

- a) Minutes from the 30 November 2017 Business Committee Meeting
 - b) Forward work program and BC Meeting dates for 2018
 - c) Other matters
-

4. Next Meeting - 5 July 2018

Business Committee Members

Company	Name	Job Title	Apologies
ABN AMRO Clearing	Barry Parker	Chief Executive Officer	
ACSA	Rob Brown	Chief Executive Officer	
AFMA	David Lynch	Chief Executive Officer	
ANZ	Andrew Koudrin (delegate)	Head of Execution Assurance and Middle Office	Peter Mullin
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	By Phone
BNP Paribas	David Braga	Head of Securities Services	
Chi-X Australia	Mike Aikins	Chief Operating Officer	By Phone
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	By Phone
Deutsche Bank AG	Geoffrey Plaisted	Chief Operating Officer, Equities	
Goldman Sachs	Yen Le (delegate)	Executive Director	Jeremy Follet By Phone
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	
Morgans	Daniel Spokes (delegate)	Manager, Transactional Services & Settlement Systems	Peter Chisholm
Morgan Stanley	Craig McGuire	Head of Operations	
NAB	Greg Bowrey	General Manager, Self-Directed Wealth Products & Markets	
NSX	Ann Bowering	Managing Director	
Pershing Securities	Leigh Conder	Chief Operating Officer	
SAFAA	Andrew Green	Chief Executive Officer	
Sydney Stock Exchange	Tony Sacre	Chief Executive Officer	Tony Sacre
UBS	Conor Foley	Chief Operating Officer	

ASX Management

Name	Job Title
Tim Hogben	Chief Operating Officer
Daniel Moran	General Counsel
Hamish Treleaven	Chief Risk Officer
Eloise Wett	Executive General Manager, Operations
Cliff Richards	Executive General Manager, Equity Post Trade Services
Sally Palmer	Deputy General Counsel
Con Korkofigas	Senior Legal Counsel and Senior Manager
Frederik Van den Weghe	Manager Business Analysis Clearing
Karen Webb	Senior Manager, Equity Post Trade Services
Keith Purdie	Senior Manager, Equity Post Trade Services
Gary Hobourn	Senior Economic Analyst, Regulatory and Public Policy

INTRODUCTION

The Chair welcomed members and delegates to the first meeting of the year. He noted that Tony Sacre (Sydney Stock Exchange) was unable to attend and a few members had nominated delegates to attend on their behalf: Andrew Koudrin (ANZ); Yen Le (Goldman Sachs) and Daniel Spokes (Morgans).

Four members dialled in to the meeting: Dean Surkitt (Bell Potter Securities), Yen Le (Goldman Sachs), Mike Aikins (Chi-X) and Winston Loke (Credit Suisse).

AGENDA ITEM 1: SERVICE PERFORMANCE

a) Operating Performance Report

The ASX Executive General Manager, Operations spoke to the March quarter performance report (data up to end February 2018) noting that:

- Availability of CHES was 99.93% reflecting a single incident which affected the system prior to the market opening on 7 February. During the period participants were able to submit messages but were not receiving acknowledgements. The system was restored by 9:30am and there was no impact on settlement that day. TAS availability was 100% for the period.
- Overall activity levels (volumes traded and value settled) during the March quarter to date have been broadly in line with the previous quarter.
- There were a small number of trade rejections on ASX (due to a participant inputting an incorrect clearing ID) and Chi-X (duplicate transactions). ASX is examining if a process can be put in place to prevent incorrect clearing IDs to avoid the need for rebooking transactions.
- Fail rates remained very low (0.3%).
- The mFund service continues to grow in terms of number of funds (194) and funds under management (\$584m).

The efficiency of CHES and the value it provides in terms of netting and the netting process were highlighted during a record trading day (6 February) where there were around 2.7 million trades processed with a gross value of nearly \$13 billion. This reduced down to 25,000 settlement instructions and \$3.2 billion in value through the netting process. There were also no performance issues with CHES during the day.

A member asked about the underlying cause of the 7 February incident and whether it had happened before? In response it was noted that while the specific circumstances hadn't happened before (a particular non-critical task had failed), the problem of a nature that ASX was able to apply a familiar solution.

AGENDA ITEM 2: CHES REPLACEMENT PROJECT

The Chair thanked members and their organisations for their participation during the consultation process to date. He noted that the process had been extremely intensive and appreciated the resources firms have allocated to this process.

The Executive General Manager Equity Post-Trade Services updated members on the CHES replacement process. He provided a preview of the decisions in relation to the scope of enhancements and additions to the new system and an outline of the proposed implementation timetable. He noted these issues will be included in the upcoming consultation paper.

He stressed that the advance briefing was being provided to the Committee on a confidential basis as the plans were still subject to internal review and discussion with regulators so there may be some further amendments before they are finalised.

He outlined the structure of the paper including that it will cover the:

- additional or enhanced features of the new system as well as the decommissioning of some redundant CHES functionality;
- adoption of ISO 20022 messaging;
- technical solution which includes both DLT-based (node) connectivity as well as traditional message-based connectivity options;
- testing and release management plan;
- migration and implementation approach; and
- ongoing stakeholder engagement activities between now and the go-live day.

a) DLT update

The Executive General Manager Equity Post-Trade Services noted that, as an operator of critical financial infrastructure, ASX's clearing and settlement system exceeds a range of minimum standards around system resilience, recoverability, performance, scalability, and connectivity. The new system will be able to handle large daily transaction volumes and accommodate a significant number of participants choosing to adopt node-based connections with no material adverse impact on system performance.

He reminded members that as the end of last year ASX chose the Digital Asset technology to underpin the replacement of CHES. The upcoming paper will provide an overview of the platform and the connection options for users, including the ability of a participant to choose take a node or to continue to connect through more traditional messaging channels. There will also be a separate Application Programming Interface (API) to enable permissioned users to request and access data reports on their information. There will also be a web browser-based integration option that will replace the current CHES PC application that some low volume users currently utilise.

The network connectivity and the transmission of messages will be through ASX Net and other options are being examined, including SWIFTNet.

In relation to the adoption of ISO 20022 messaging it was noted the initial high-level gap analysis and message mapping has been completed. The next step is consolidating the messages down to around 100 ISO20022 messages. As the system development proceeds some workflows may change and those workflows need to be specified and delivered before the messages can be consolidated down to its final set. This will be an iterative approach, that is, messages will be released in tranches and communicated through the Technical Committee.

He noted that, based on feedback from users and technology vendors as well as an assessment of the risks involved ASX has decided to implement a migration to the new system over a single weekend. The existing CHES and replacement system will not operate in production at the same time given the significant cost and complexity involved for users and ASX. The risks associated with this approach will be managed through the earliest possible roll-out of development and test environments to allow participants and vendors to become familiar with the new system well before the cut-over time to the new technology.

ASX is currently targeting Q4 2018 for an initial documentation release that will include the technology and connectivity specifications for the new system and outline any implications this may have for new or altered functions and processes.

A customer development environment would follow in Q2 2019, allowing software vendors and participants' early access to an incomplete version of the new system (e.g. core functions such as, participant set up, account set up, clearing and settlement functions) so they can begin developing to the new system. Subsequent functionality will be added incrementally to the development environment.

The customer build and test environments will be supplemented with an industry-wide test environment in Q1 2020 to provide an end-to-end testing capability.

This environment will be the basis for accrediting, testing and certifying participants, as well as connectivity and integration to the new system. There will be a pre-live production environment which will be configured as a production environment and this will be used for regular industry migration rehearsals.

He noted that ASX is currently targeting a go-live window for the new system of between Q4 2020 and Q1 2021 although the feedback from the consultation and ongoing stakeholder engagement will inform this target as the project moves forward.

Members were asked if they had any initial views on the indicative timetable, in particular whether it was overly aggressive or not aggressive enough, noting that feedback on timing was one of the most critical areas of the upcoming consultation paper.

One member responded that any tighter timing would feel aggressive and that the proposed go-live window may be challenging given other resource intensive projects banks are currently working on, such as preparations for Brexit.

Another member asked if the indicative timetable took into account all of the necessary work streams, regulatory engagements and the capacity of the market to accommodate the proposed development and testing arrangements.

In response, the Executive General Manager Equity Post-Trade Services indicated that the timeline has factored in everything ASX is aware of, including the new business requirements, the Technical Committee's work around the ISO 20022 messaging, and earlier feedback from the Business Committee around the lead times that participants had requested for their budgeting cycles.

There was another question around how the Corporate Action STP project fits into the timeline. In response it was noted that the project would run in parallel, and is expected to be completed prior, to CHES replacement.

There were questions around how the development and testing process would work in practice. The Executive General Manager Equity Post-Trade Services responded that ASX will apply an agile iterative process to enable it to continually refine the system as new information emerges including feedback from users. ASX will try to minimise the changes facing customers once the project moves into those iterative cycles and any adjustments will be at the margin, not major functional changes.

ASX will be providing support to participants to assist them through the migration and implementation process. The significant testing and accreditation program should also identify if any participants are not ready for the migration. The Executive General Manager, Operations added that ASX will establish technical account management support and day-to-day technical support for participants similar to that which occurred around the introduction of for the new ASX24 trading platform.

A few members indicated that the proposed six week consultation paper may be insufficient given the need to coordinate a response across their organisations. It was noted that the six week period was designed so that ASX could publish a synthesis of the feedback received in the middle of the year and be in a position to report back to the next Business Committee meeting in early July. That said, ASX would consider the appropriate consultation period.

On future stakeholder engagement it was noted that the Business Committee, ISO 20022 Technical Committee and AMO working group will continue their existing roles. Two new industry working groups with a broad range of stakeholders will be established:

- Connectivity and Integration – to assist users to manage their connectivity to test and production systems as well as assessing the different integration options.
- Implementation and transition – to inform stakeholder's implementation and transition plans.

The Executive General Manager Equity Post-Trade Services asked members to nominate a primary and a secondary contact person to assist in coordinating any CHES replacement activities and also nominate people for the two new working groups. He also suggested it would be useful to have a single monitored group email address for any communication with their organisations over the life of the project.

b) Business Requirements Update

The Executive General Manager Equity Post-Trade Services noted that a large part of the consultation paper would be setting out the business requirements coming out of last year's working groups and the rationale used to determine the targeted scope of the Day 1 release of the system that will replace CHES.

He provided a preview of which features that are targeted to be included in the Day 1 scope and which would be implemented at a later date. He noted that the implementation timing of some business requirements which are targeted for Day 1 implementation are subject to a higher degree of uncertainty because of the associated regulatory considerations.

The paper would also set out the handful of business requirements not being progressed and some existing CHES functionality being decommissioned.

Members asked questions about the nature of a few of the planned features including the common investor number, optional accelerated settlement, and bilateral settlement outside of the batch.

There was also discussion on the removal of the need for signed documentation to conduct custodian off-market transfers. While this is currently being progressed it is not clear if it will be possible to meet the original expectation of this being in place by mid-2018 as there was still a regulatory process to go through which may require public consultation. A member noted that his firm, and most custodians, are ready to offer any further input necessary to progress the matter and assuage any residual investor protection concerns the regulator may have.

A member asked about the timing for those business requirements that have been categorised as being implemented Post Day 1. In response it was noted that the timing of the handful of features in this category would be considered on a case-by-case basis considering factors such as the time necessary to develop the associated rule framework and the regulations and the level of user demand. Members were encouraged to indicate in their responses to the consultation paper whether any business requirement not included in Day 1 should be a high priority for subsequent implementation.

The business requirements that had been identified but will not be progressed were identified and it was noted that the consultation paper would provide the reasons for those decisions. A member reinforced the need for ASX to explain any decisions not to proceed with particular business requirements that came out of the working groups, not only so stakeholders can understand the process but also to assist them in responding to the consultation paper.

c) Corporate Action STP Phase 2 Update

The Senior Manager, Equity Post-Trade Services confirmed that the Corporate Action STP project will be run in parallel with CHES replacement process. The project plan is currently being developed now that corporate action items coming out of the working group process have been identified.

It is expected that the project will run for about 18 to 24 months and the outputs should be delivered prior to CHES replacement. The project will focus on four key areas:

- Delivering straight-through processing functionality for the corporate actions that weren't addressed in Phase 1. This includes modifying how an issuer announces the corporate action, the automatic capture of data by ASX systems and the delivery of corporate action information to users. The ISO20022 message format provides greater scope to collect richer information and release it more quickly to the market by removing manual processes.
- Addressing capital raising announcement events including entitlement offers, share purchase plans, and priority offers. This information is currently captured manually through Appendix 3B forms. It is planned to introduce a more automated process for these capital raising announcements.
- Progressing the corporate action business requirements coming from the CHES replacement working groups. An example would be the requirement around electronic support for DRP elections. The CHES project will cover the electronic election process, but the corporate actions project will examine the structural or listing rule requirements that would, for example, be necessary to facilitate standardised election periods.

- Introducing enhancements to the Phase 1 corporate actions. This could include collecting more tax information associated with dividends; applying the STP process across more products such as ETFs; and providing an interface for non-ASX affiliated AMOs to provide corporate action information electronically to facilitate CHES support for their listed entity's corporate action events.

A member asked how the two projects would work in parallel. In response it was noted that CHES is a consumer of ReferencePoint corporate action data and the specific corporate action enhancements wouldn't impact directly on existing CHES or the design of the new system unless they require some structural changes to a CHES supported event.

d) ISO 20022 Technical Committee Report and Minutes

The ASX Chief Operating Officer noted that since the first meeting of the Technical Committee about 16 months ago around 450 messages have been transposed into about 80 unique ISO messages, although the final number will be dependent on the additional business requirements. Technical Committee members are considering how the new message structures can assist their business flows.

ASX surveyed Technical Committee members to determine if they felt they were being provided with the right information and whether the meetings were effective. The results generally validated the process, while identifying ways that information might be better provided in advance of meetings.

The next meeting will be held in Melbourne in April. By the end of this year the Committee is aiming to have a 'technical specification' available for the market on new suite of messages that will allow participants and vendors to commence work on building their interfaces to the new platform.

There were no questions from members on the Technical Committee update.

AGENDA ITEM 3: Administration

a) Minutes from the 30 November 2017 Business Committee Meeting

The minutes of the 30 November 2017 meeting were approved without change.

b) Forward work program and BC Meeting dates for 2018

The Chair noted that while the Committee's forward work program will be dominated by CHES replacement this year, if there were other matters that members thought could be usefully added to the forward agenda (e.g. the implications of Brexit on Australian markets) they should let ASX know.

c) Other matters

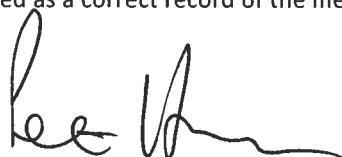
There were no other matter raised by members.

Next meeting

The next meeting is scheduled to be held on 5 July 2018.

The meeting closed at 1.30pm.

Signed as a correct record of the meeting.



Chairman

6/07/2018

Date

