

Business Committee Report to the Boards of ASX Clear and ASX Settlement

Business Committee Meeting

At its 4 April 2019 meeting, the Business Committee was updated on the:

- implications for the operation of industry advisory groups (e.g. Business Committee) of the introduction of the concerted practices prohibitions under the competition laws;
- operating performance of CHES for the March Quarter 2019 to date;
- CHES replacement and Corporate Action STP Phase 2 projects;
- ISO 20022 Technical Committee's progress in developing the new message standards; and
- intention to expand the membership of the Business Committee to include representatives of issuers and investors.

KEY ISSUES DISCUSSED

Drawing on earlier presentations to other ASX hosted industry advisory groups, Elizabeth Avery (Gilbert + Tobin) advised members that they should avoid sharing commercially sensitive information amongst themselves in the course of, or in the margins of, the Committee's work, particularly where another party may act on the basis of that information.

The Committee was updated on CHES replacement activities undertaken since the last meeting including the release of the second drop of technical documentation and the upcoming opening of the customer development environment for the testing of the new software. There have also been a number of working and focus group meetings to assist with the development of the final design on some new feature solutions.

There was also a preliminary discussion on pricing of services once the new system is implemented. ASX outlined the recent announcement of pricing for different modes of access to the new system and noted that work on developing alternative pricing models for clearing and settlement fees is ongoing. Some members noted that they required longer term indications of the price of the direct node-based access (currently fee free for the first 3 years) before they could make a commitment to exploring that option. Members were also interested in understanding the potential pricing models for clearing and settlement fees and the principles that those models would be assessed against.

ASX also noted that, given the stage that the CHES replacement project is now at, it was appropriate to extend the membership of the Business Committee to industry bodies representing the interests of, and companies providing services to, issuers and investors. As such, ASX indicated that it would be shortly issuing invitations to industry associations and share registries.

Agreed Actions

ASX agreed to:

- offer any interested members with a presentation (deferred from this meeting) on the Corporate Action STP Phase 2 project in advance of the next Business Committee meeting; and
- revise the Business Committee Charter to remove the requirement for industry associations to confirm which of its members supported a particular recommendation.

Minutes

Business Committee Meeting

Date	4 April 2019	Time	12:00pm – 2:00pm
Location	ASX Offices – Level 1, 20 Bridge Street, Sydney		

1. Governance of industry advisory committees

Presentation by Elizabeth Avery (Gilbert + Tobin) on the impact on industry-based advisory committees of changes to the Competition and Consumer Act, for the information of committee members.

2. Service Performance

Cash Market Clearing and Settlement - Operating Performance

3. CHESS Replacement Project

- a) CHESS Replacement
 - Software development update
 - Customer engagement activities
 - b) Pricing and fee information update
 - c) ISO 20022 Technical Committee Report and Minutes
-

4. Clearing and settlement services

Recap and update on Corporate Action STP Phase 2

5. Administration

- a) Minutes from the 29 November 2018 Business Committee Meeting
 - b) Business Committee Membership
 - c) Forward work program
 - d) Other matters
-

6. Next Meeting - 18 July 2019

Business Committee Members

Company	Name	Job Title	Apologies
ABN AMRO Clearing	Matt McMahon (delegate)	Head of Operations	Barry Parker
ACSA	Rob Brown	Chief Executive Officer	
AFMA	David Lynch	Chief Executive Officer	
ASX	Peter Hiom	Business Committee Chair, Deputy CEO	
Bank of America Merrill Lynch	Rhys Cahill	Global Markets COO	
Bell Potter Securities	Rodd Kingham	Head of Operations – Transformation	
BNP Paribas	Mark Wootton	Head of Custody Product Australia & New Zealand	
Chi-X Australia	Mike Aikins	Chief Operating Officer	
Citi	Miles O'Connor	Director, Direct Custody & Clearing Securities & Funds Services	
CMC Markets	Andrew Rogers	Director, Broking	
Commonwealth Bank of Australia	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	Yen Le	Executive Director	
HSBC	Peter Snodgrass	Head of Direct Custody and Clearing	
J.P. Morgan	Craig Twentyman (delegate)	Head of Custody & Products	Jonathan Evans
Macquarie Group	James Indge	Cash Equities Business Manager	James Indge
Morgan Stanley	Rebecca Hill	Chief Operating Officer	
Morgans	Daniel Spokes (delegate)	Associate Director, Clearing and Settlement Manager	Peter Chisholm
National Australia Bank	Greg Bowrey	General Manager, Self-Directed Wealth Products & Markets	
NSX	John Williams	Head of Admissions	Ann Bowering
Pershing Securities	Leigh Conder	Chief Operating Officer	
SAFAA	Andrew Green	Chief Executive Officer	
Sydney Stock Exchange	Antony Tolfts	Listings Director	
UBS	Conor Foley	Chief Operating Officer	

ASX Management

Name	Job Title	Apologies
Tim Hogben	Chief Operating Officer	
Daniel Moran	General Counsel	
Hamish Treleaven	Chief Risk Officer	
Cliff Richards	Executive General Manager, Equity Post Trade Services	
Dan Chesterman	Chief Information Officer	
Kevin Lewis	Chief Compliance Officer (Agenda Item 3b)	
Sally Palmer	Deputy General Counsel	
Katie McDermott	General Manager, Equity Post Trade Services	
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	

Guest

Name	Job Title	Apologies
Elizabeth Avery	Partner, Gilbert + Tobin (Agenda item 1)	

INTRODUCTION

The Chair welcomed members and delegates to the first meeting of the year. He noted that Rebecca Hill was replacing Craig McGuire as Morgan Stanley's representative on the Committee.

The Chair noted James Iudge (Macquarie Group) was an apology for the meeting. In addition there were a number of delegates for members: Matt McMahon (ABN-AMRO), Craig Twentyman (J.P. Morgan), Daniel Spokes (Morgans); and John Williams (NSX).

Two members dialled in to the meeting: Geoffrey Plaisted (Deutsche Bank AG) and Winston Loke (Credit Suisse).

AGENDA ITEM 1: GOVERNANCE OF INDUSTRY ADVISORY COMMITTEES

The ASX General Counsel introduced Elizabeth Avery from the Competition and Regulatory Group, Gilbert & Tobin to brief the Committee on the impact on the operation of industry advisory committees of the concerted practices prohibition sections of the competition law.

Ms Avery outlined the context for the presentation, including the operation of the concerted practices prohibition and the heightened regulatory scrutiny of financial services.

Ms Avery acknowledged the important and legitimate functions of the Business Committee, but noted that the concerted practices prohibition would apply even in this context in relation to interactions such as information exchanges between competitors and potential competitors with the purpose or effect of substantially lessening competition.

Ms Avery outlined measures that could be taken to mitigate this risk, including through good meeting governance and mindfulness by Committee members of the requirements of the law. This did not prevent the legitimate functioning of the Committee, or appropriate consultation with and among Committee members in relation to matters under consideration by the Committee.

Committee members discussed the presentation and questioned Ms Avery on aspects of the concerted practices prohibition particularly as it applied to activities of the Committee.

AGENDA ITEM 2: SERVICE PERFORMANCE

The ASX General Manager, Post-Trade Operations spoke briefly to the report included in the paper which covered the first two months of the year. She noted that volumes during that period were steady with those in the previous quarter. If the figures for March were included the numbers are consistent with a stronger March quarter.

In relation to other key metrics:

- Netting and settlement efficiency improved to 99.95% during the quarter
- Average daily batch value in CHES throughout the quarter was over \$10 billion; and
- Fail rates fell to below 0.2%.

She advised members that on 1 March 2019 the Registered Holder Collateral Cover Authorisation form changes came into effect, moving from a paper-based to an email solution. She thanked the committee who worked with ASX through the consultation and implementation phases of that solution.

There were no questions from members.

AGENDA ITEM 3: CHES REPLACEMENT PROJECT

a) CHES Replacement

The ASX Executive General Manager, Equity Post-Trade Services indicated that the system build is on track, both the work with Digital Asset and the integration of that software into other upstream and downstream ASX systems. He thanked those members and their teams that have actively contributed to the current focus and working groups that are helping to refine the final solution design.

The ASX General Manager, Equity Post-Trade Services reported that the project has been tracking to plan and hitting all its milestones, including DA software delivery, development of the test environments and the second release of technical documentation.

The Customer Development Environment (CDE) is on track to be made available at the end of April, providing participants with the opportunity to test the available functionality. The CDE provides an individual application development environment for each participant and enables users to test all the connectivity options as well as each piece of functionality as it is added to the CDE approximately every eight weeks.

The test environments will be populated with core static data including business calendars, test securities and specific user data including PIDs and participants can also request additional PIDs for internal testing. The CDE also includes auto-test responders to allow participants to simulate specific test scenarios such as auto-matching bilateral messages.

She noted that ASX had received a number of application forms from participants and vendors indicating their connectivity choices and encouraged others who have not yet submitted their applications to do so as soon as possible.

She also highlighted that the focus groups have been helpful in testing solution designs, facilitating practical feedback from customers that has prompted changes to simplify system design (e.g. account creation).

The ASX Senior Manager, Equity Post-Trade Services updated members on customer engagement activities since the Committee last met at the end of November. He noted that the December release of the first tranche of technical documentation has been supplemented with incremental releases of functional specs and more recently message and usage guidelines. The second technical documentation release took into account feedback from participants and provided clarifications, corrections or updates to the first set of documentation.

He reminded members that there would be a total of seven technical document releases with the last occurring in February 2020. The next (third) release in May 2019 will cover transfers, conversions and netting.

Over 450 known users have registered to receive the technical documentation and ASX has set up a dedicated email address for any queries or questions from stakeholders on technical documentation.

A webinar attended by 150 people in December outlined the new technical documentation library and how to navigate the site.

Since the Business Committee last met there have been five connectivity and integration working groups held covering topics including: the CDE, connectivity options and the application process. The next meeting will be held on 1 May. A forward plan for the working group was included in the Committee papers and provides more detail on the topics for the meetings out to July and listing the range of topics to be covered during the remainder of this year.

He noted that the connectivity and integration working groups have been opened up to allow additional attendees to attend via Skype. For example, 59 participants dialled into the latest meeting in addition to those present in the room.

The implementation and transition working group, which focuses on the operational readiness for the cut-over weekend in March or April 2021 met for the first time during March and over 120 people dialled into that webinar. The next session will take place in May. The recording of the initial webinar and the associated slides are available on the CHES replacement webpage. A range of other information (e.g. forward calendars, topics, and materials) is also publicly available on that webpage.

The Chair asked members if they had comments on the updates, the matters being discussed in the working groups, or if they had identified any topics that weren't being dealt with in those working groups or should be raised here.

A member asked how, in practice, the matters being discussed in the focus groups were being integrated into the more technical work streams dealing with the ISO 20022 standards. The ASX General Manager, Equity Post-Trade Services noted that in some cases the same firm representatives attended both the functional and technical work streams. The Technical Committee has the specific technical messages presented to them so, the groups work in

conjunction. The plan is to, where possible, run the focus groups prior to the Technical Committee to enable the functional design solution to be discussed.

A member noted the earlier comment that the project is currently on track but asked if there are any dependencies that are outside of ASX's control (e.g. vendor preparedness, regulatory approvals) that might impact on the expected timelines.

The ASX Executive General Manager, Equity Post-Trade Services noted that ASX runs a risk matrix which identifies factors (internal and external) that could impact on the schedule. Most of the external dependencies are similar to other large transformation projects where there is a reliance on vendor and participant readiness, accreditation etc. He indicated that it is too early to identify any actual pressure points, but if there are any, they may emerge in a few months as testing in the CDE progresses.

A member asked about a recent article in the press referencing a report on views of some stakeholder groups about CHES replacement and if ASX could provide Committee members with a copy. The Chair noted that ASX had recently received a copy of the report, however it was not ASX's report to release.

b) Pricing and fee information update

The ASX Executive General Manager, Equity Post-Trade Services noted that ASX had sent participants advice on 12 March about access pricing for the new system. He noted that there were three broad categories of access for clearing and settlement services.

The first is direct access through a node-based connection to the distributed ledger which will be offered free for three years post go-live, and that, no later than 12 months prior to the end of that period, ASX would discuss with participants the subsequent charging regime.

A member indicated that the lack of clarity on the pricing after the three year free period makes it very difficult for participants to take a decision to commit resources to assessing the node based option. Another member agreed that if ASX was able to provide even a broad indication of the longer term pricing (a minimum of 5 years) for node access, it would be an important input to enable participants to decide whether to invest in the node based option. ASX agreed to review its pricing in light of this feedback.

The second connectivity option is traditional ISO 20022 messaging delivered either through an AMQP or SWIFTNet pathway. The pricing for AMQP connectivity will be \$495 per month. To offer the SWIFT option, ASX may need to upgrade its infrastructure to support the increased message volumes. Any increased infrastructure costs to support SWIFT connectivity will be passed back to those users that choose that method of access.

A third connectivity option, which would be similar to the current CHES PC service would mainly be of interest to lower volume users.

The three connectivity options are not mutually exclusive and participants may decide to use more than one option to architect workflows in the most efficient way for their needs.

The ASX Executive General Manager, Equity Post-Trade Services then turned to the framework for clearing and settlement pricing. He noted the existing structure of clearing fees (0.225 basis points of value cleared) was simple and does not drive customer behaviour. In contrast the structure of settlement fees did provide incentives for different business activity. ASX is talking to participants and undertaking analysis to better understand how they use the settlement service to assist ASX in developing alternate pricing models that may better suit the needs of customers.

The shift to ISO 20022 message standards and the availability of direct node-based access provides the opportunity to consider different ways to price these services. Moving away from a transactional basis of pricing to a value-based approach, a tiered fee structure, or a subscription-based model are all under consideration. However, more analysis by ASX is required to understand the impact these different structures could have on different types of settlement system users (e.g. high and low volumes users) and how it might impact usage of the system.

The Chair noted that once the analysis is further progressed, ASX will seek user input to understand which pricing structures fit best with their business models.

A member asked when ASX expected to have completed the detailed analysis and to finalise its new pricing arrangements. He noted that participants are fielding questions from their clients on pricing. The ASX Executive General Manager, Equity Post-Trade Services indicated that it would take several months to complete the work before discussions with participants could begin, noting that the new fee regime would apply from the date of the new system going live in approximately 2 years.

A member asked if the ASX process was similar to the one that underpins the ASIC industry funding model whereby there is a cost to operate a system and the only question is how these costs are allocated amongst users in the most fair and efficient manner. If not, he asked what the basis would be for determining the costs of the new system now and into the future. In addition, he asked what principles ASX would use to determine the allocation of costs amongst users and whether these can be made available as it would be useful when communicating the rationale for the final pricing model to participants.

In response the ASX Executive General Manager, Equity Post-Trade Services indicated that ASX is examining the incentives and disincentives that the existing charging mechanism has on settlement and pre-settlement activities as well as the impact of different pricing models on different customers compared to today – and recognising that ASX has regulatory obligations to have a fair, transparent and non-discriminatory pricing model. The Chair also added that ASX will, in consultation with customers, determine the best pricing model in the context of the capital and operating costs of the business.

Another member asked if ASX would be recouping the costs of establishing node based connectivity through clearing and settlement fees. It was confirmed that the cost of providing node access would not be recouped through clearing and settlement fees.

c) ISO 2022 Technical Committee Report and Minutes

The ASX Chief Operating Officer advised that there had been three meetings of the Technical Committee since the last Business Committee meeting. He also noted that ASX and participants that use SWIFT have been going through a significant SWIFT-led attestation process around compliance with security protocols.

In December 2018, ASX made attestations with SWIFT across CHESS, Austraclear, and ASX Collateral. There is an ongoing work program including independent verification of that work and dialogue with regulators and other third parties.

By the March 2019 Technical Committee meeting a total of 66 action items had been closed with 7 remaining open. The Committee broadly reconfirmed the principles underpinning the adoption of ISO messaging, although a couple of aspects were challenged, particularly the need to be mindful of the development effort required and the impact of the consolidation of messages.

ASX has committed to come back to the Technical Committee meeting on some of these issues. For example, ASX had redesigned the hierarchy of an account set up, in the context of improving the process for transfers and conversions, based on a cost benefit analysis of the initial proposal.

In the context of the earlier discussion on the risks to ASX achieving the target date for the new system the Chief Operating Officer noted that vendor development to the new ISO suite of messages and the associated SWIFT guidelines remains an area of potential risk as the project proceeds. There will be a particular focus on quickly bedding down critical messages and structures when the CDE opens.

There were no questions from Committee members on the report.

AGENDA ITEM 4: CLEARING AND SETTLEMENT SERVICES

a) Recap and Update on Corporate Action STP Phase 2

The Senior Manager, Equity Post Trade Services noted that given the time available she would provide an abbreviated version of the planned presentation of the Corporate Action STP Phase 2 project, suggesting that the section recapping the objectives and benefits be held over to the next Business Committee meeting. At this meeting she focused on the project update, with the first delivery of the project tied to the listing rule changes being targeted for July 2019.

ASX's Chief Compliance Officer spoke to the proposed listing rules changes, noting that the consultation period closed at the beginning of March and ASX had received 48 submissions. The nature of the proposed rule change and the significant amount of detailed feedback has required further consideration of the drafting of the rules.

The plan to have the rule changes in place for a 1 July 2019 start date are still on track, although this timing is contingent on regulatory approval. If it is not possible to achieve the 1 July start date it will probably be deferred to December.

The Chair indicated that it would be necessary to carry over the longer presentation on the project's objectives and benefits to the next meeting. However, given that a couple of Committee members had requested a broader discussion at this meeting, ASX was open to arranging separate meetings for any members who were interested prior to the next Business Committee meeting. One member indicated he thought there was sufficient interest from his members to justify a meeting.

AGENDA ITEM 5: Administration

a) Minutes from the 29 November 2018 Business Committee Meeting

The minutes of the 29 November 2018 meeting were approved without further change.

b) Business Committee Meeting Membership

The Chair informed the meeting that ASX, given the stage of the CHES replacement project, intends to invite additional members to join the Committee to provide input from issuers and investors. These would include industry associations representing these groups and share registries.

He asked if any members had any comments on the proposal. One member commented that he thought it was a good idea. Another asked if consideration had been given to inviting a representative of the Council of Financial Regulators to attend Business Committee meetings. The Chair noted that there was an open invitation for the regulators to attend any committee or working group meetings.

c) Forward work program

The Chair asked if members had any new items to add to the Committee's forward work plan. No additional items were proposed.

d) Other matters

A member asked about the status of the proposals raised in the Transfers and Conversions consultation paper last year. The Chair undertook to provide the member with an update on the current state of play with that process.

Another member noted that the revised Business Committee Charter (see agenda item 5b above) had not been amended to reflect an earlier agreed action to remove the requirement for industry associations to confirm which members supported particular recommendations. The Chair acknowledged that earlier discussion and agreed to include that amendment in the revised charter.

Next meeting

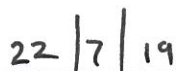
The next meeting is scheduled on 18 July 2019.

The meeting closed at 2.00pm.

Signed as a correct record of the meeting.

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

Chair

A handwritten date '22/7/19' in black ink, written above a horizontal line.

Date