

**CASH MARKET
SETTLEMENT
MANAGEMENT INCOME
STATEMENT
FOR THE YEAR ENDED
30 JUNE 2021**

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Management income statement – cash market settlement

	FY21 \$ Million	FY20 \$ Million
Revenue		
Cash market settlement	74.2	65.2
Revenue sharing rebate	(4.5)	(6.1)
Settlement fail fees	2.4	2.4
Technical services & Participation fees	1.1	1.2
Operating Revenue	73.2	62.7
Expenses		
Staff	13.5	12.0
Equipment	3.3	2.8
Occupancy	0.9	0.9
Administration	2.8	2.5
ASIC supervision levy	0.5	0.6
Operating expenses	21.0	18.8
EBITDA	52.2	43.9
Depreciation and amortisation	0.9	0.9
EBIT	51.3	43.0
Interest income	0.0	1.0
Profit before tax	51.3	44.0
Tax expense	(15.4)	(13.2)
Profit after tax	35.9	30.8
Capital charge	(20.0)	(18.1)
Economic profit after capital charge	15.9	12.7
EBITDA margin	71.4%	70.1%
Total Capital	247.1	195.1
Return on capital	14.5%	15.8%

Notes to the management income statement

Summary of significant accounting policies

This statement is the management income statement for the ASX cash market settlement activities. It has been prepared following the commitment made in the Code of Practice for Clearing and Settlement of Cash Equities in Australia released by ASX on 18 July 2013 and updated on 12 October 2016.

This management statement was authorised by the Board of Directors of ASX Settlement Pty Limited on 18 August 2021.

Basis of preparation

This special purpose management statement has been prepared on the basis of the Code of Practice for Clearing and Settlement of Cash Equities in Australia and the associated ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia. As it is based on management information, it does not comply with Australian Accounting standards.

The accounting policies adopted in the preparation of this statement are outlined below.

Revenue recognition

Consistent with the ASX financial statements, revenue is recognised when it is probable that the economic benefits will flow to these activities and the revenue can be reliably measured. Revenue recognition policies have been consistently applied in each financial year. The specific allocation of revenues is described below.

Cash market settlement represents fees earned for the settlement of cash market trades transacted on ASX and other venues. Cash market trades include equities, interest rates, warrants and exchange traded funds. Fees are based on a fixed charge on the number of settlement messages. These fees are recognised at settlement date.

Revenue sharing rebate represents the amount of cash market settlement fees rebated to settlement participants. The amount of the rebate represents 50% of the growth in revenue (pre-rebate) from cash market settlement in the current period over the prior comparable period. Rebates are recognised in the period the revenue is earned.

Participant fees represent annual and initial fees paid by settlement participants for admission to or participation in ASX Settlement Pty Limited. Fees are recognised in the period earned.

Technical services represents fees paid for technology connectivity to the ASX clearing and settlement platform. Fees paid to access the CHES platform have been allocated between cash market clearing and cash market settlement on an equivalent basis.

Notes to the management income statement (continued)

Expense allocations

Operating expenses have been attributed to cash market settlement based on the ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia. Costs have been attributed as either direct costs, being those that can be directly attributable to the activities specifically undertaken within cash market settlement, or indirect or common costs. Indirect costs are those costs incurred that are not directly attributable to activities within cash market settlement but are undertaken to indirectly support these activities. Attributions of costs have been performed at the individual cost centre for the different divisions within the ASX Group of companies.

The attribution of direct and indirect costs by expense categories are described below. The attribution has been consistently applied in each financial year. The cost allocation and transfer pricing policy is available on the ASX website.

Staff costs

Direct staff costs have been attributed based on an analysis by division within ASX of the amount of time involved in direct cash market settlement activities. In some divisions this has resulted in an attribution based on the number of full-time equivalent staff costed at actual staff cost for different functions. In other divisions the allocation has been based on the percentage of time on average spent by staff performing cash market settlement activities.

Indirect staff costs have been attributed in two ways: For divisions where the indirect or common activities cannot be specifically identified to cash market settlement, their costs have been allocated on the same percentage as total direct staff costs for all other divisions. For divisions where activities can be estimated based on analysis of functions performed they have received a percentage allocation on that basis. These estimates are based on various activity drivers which differ among different divisions.

Equipment costs

Direct equipment costs have been allocated on the basis of specific expenditure incurred on technology platforms supporting the cash market settlement activities. Where technology is shared with other activities, such as the cash market clearing and settlement platform, the allocation has been based on an estimate of the functionality related to each activity.

Indirect equipment costs, being those costs that support technology platforms that provide common services to many business activities have been allocated on the same basis as total direct staff costs, as this is considered the most appropriate driver.

Occupancy costs

Occupancy costs have been allocated on the basis of direct and indirect staff costs attributed to cash market settlement, as the overall staff costs reflect the appropriate allocation of premises.

Notes to the management income statement (continued)

Administration costs

All administration costs have been attributed as indirect costs as there are no specifically identifiable costs in this category for cash market settlement. Administration costs are common across many business units and include items such as stationery, travel, insurances and marketing. As these costs are common to and support many activities, they have been allocated on the basis of indirect staff costs. This is considered to be the most appropriate driver of the majority of this expenditure.

Interest income

Interest income reflects the investment earnings on the capital attributed to cash market settlement. Interest income is recognised on an accrual basis.

Capital

The capital attribution to cash market settlement includes, operational risk capital supporting the settlement activities, as well as invested capital in the technology infrastructure.

Operational risk capital represents the amount of capital required and made available for operational risk as assessed by the Board and assessed against the Financial Stability Standards.

Invested capital represents the cost of infrastructure supporting the cash market settlement activities. Where technology infrastructure is shared with other activities, the allocation is on the same basis as that adopted in the allocation of equipment costs.

The capital charge in the management income statement reflects ASX's cost of capital applied to the capital attributed to cash market settlement and excludes any capital supporting infrastructure that is currently being depreciated. This capital charge calculation uses the ASX Group cost of capital.

The capital attribution methodology has been consistently applied in each financial year.

Tax

Tax expense represents a charge based on the applicable income tax rate.

Directors' declaration

In the opinion of the directors of ASX Settlement Pty Limited:

The management income statements and notes that are contained in pages 3 to 6 are in accordance with the Code of Practice for Clearing and Settlement of Cash Equities in Australia released by ASX on 18 July 2013 and updated on 12 October 2016, including

- (i) Presenting fairly the management information for the cash market settlement activities of ASX Settlement Pty Limited, and
- (ii) Complying with the ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia.

Signed in accordance with a resolution of directors.



Stephen W Knight
Chairman
ASX Settlement Pty Limited

Sydney, 18 August 2021



Independent auditor's report

To the directors of ASX Settlement Pty Ltd

Our opinion

We have audited the Management income statement (the "Statement") of ASX Settlement Pty Ltd (the "Company") for the year ended 30 June 2021. The Statement comprises:

- Management Income Statement – cash market settlement
- Notes to the management income statement
- Directors' declaration.

In our opinion the Statement is prepared, in all material respects, in accordance with the basis of preparation included in the Notes to the management income statement and the Code of Practice for Clearing and Settlement of Cash Equities in Australia and the associated ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Statement* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the statement in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter - basis of accounting and restriction on distribution and use

We draw attention to the notes to the management income statement which describes the basis of accounting. The Statement has been prepared to assist the Company to meet the financial reporting requirements of the Code of Practice for Clearing and Settlement of Cash Equities in Australia which became operational on 9 August 2013, and was updated on 12 October 2016, and the ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia. As a result, the Statement may not be suitable for another purpose. Our report is intended solely for the Company and its directors and should not be distributed to or used by parties other than the Company and its directors. Our opinion is not modified in respect of this matter.

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Responsibilities of management for the Statement

Management of the Company is responsible for the preparation and presentation of the Statement in accordance with the Code of Practice for Clearing and Settlement of Cash Equities in Australia and the associated ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia. This includes determining that the Code of Practice for Clearing and Settlement of Cash Equities in Australia and the associated ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia is an acceptable basis for the preparation of the Statement in the circumstances, and for such internal control as management determine is necessary to enable the preparation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the Statement

Our objectives are to obtain reasonable assurance about whether the Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Statement.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by the directors.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.


PricewaterhouseCoopers



Alexandra Richardson
Partner

Sydney
18 August 2021