



ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia

This policy sets out the methodology that is to be applied to:

- Allocation of costs to Australian cash equities clearing and settlement for the purpose of preparing management accounts for the cash equities clearing and settlement activities of ASX Clear and ASX Settlement pursuant to the *Code Of Practice for Clearing and Settlement of Cash Equities in Australia*.
 - Transfer pricing for facilities or services that ASX group entities provide to ASX Clear or ASX Settlement in connection with Australian cash equities clearing and settlement.
 - Transfer pricing for services that relate to Australian cash equities clearing and settlement which ASX Clear or ASX Settlement provide to ASX group entities where materially equivalent services are provided to third parties or users.
1. ASX has put in place a *Code of Practice for Clearing and Settlement of Cash Equities in Australia (the Code)*. The Code is based on 3 key principles being user input to governance, transparent and non-discriminatory pricing and access to clearing and settlement services.
 2. The Code sets out ASX's commitment to non-discriminatory pricing and the development of internal cost allocation models and policies.
 3. The Code provides that ASX will publish management accounts for ASX Clear and ASX Settlement in respect of the clearing and settlement of cash equities in Australia on an annual basis and that these accounts will be made available on the ASX website. This policy describes the manner in which costs will be allocated to clearing and settlement functions in the preparation of those accounts. Compliance with this policy will be subject to internal audit review and an annual review by an external auditor in accordance with the Code.

Purpose of policy

4. Cost allocation under this policy relates to the attribution of ASX's directly attributable costs to cash equity clearing, settlement and other services and the allocation of common or indirect costs between these different services.
5. The purpose of this policy is to ensure that costs are appropriately attributed and allocated to the cash equity clearing and settlement services provided by ASX. The published management accounts for ASX Clear and ASX Settlement will set out separated line items for the costs of cash

equity clearing services and settlement services. This contributes to ASX's commitment under the Code.

Attribution of costs

6. The following principles will be applied to the attribution of ASX Group operating (e.g. staff expenses, technology costs) and capital costs associated with the clearing and settlement of cash equity market transactions (**cash market transactions**). Cash market transactions include the trading of cash equities, warrants and exchange-traded funds (**ETFs**). Exchange-traded derivatives are not included in cash market transactions.
7. Cash market settlement refers to the settlement activities associated with cash market transactions and excludes any non-settlement (registry) services provided to listed entities.
8. The management accounts will attribute costs to 3 separate categories of services:
 - clearing services for cash market transactions;
 - settlement services for cash market transactions; and
 - 'other' services.
9. Other services may include trading services and clearing and settlement services for non-cash market transactions.
10. ASX recognises that activities and functions drive costs. Where possible ASX will determine the cause or driver of costs and assign costs to the categories of services above on that basis.
11. Costs may be categorised as either:
 - 'direct' costs; or
 - indirect (sometimes called 'common or 'shared costs').

Operating costs

12. In the first instance, ASX will seek to allocate costs on a direct basis. This will identify costs which can be directly linked to the provision of relevant services through an analysis of the activities and their related costs for:
 - a clearing service for cash market transactions;
 - a settlement service cash market transactions; or
 - a clearing and settlement service for cash market transactions.
13. This process will identify the direct costs of clearing services for cash market transactions, settlement services for cash market transactions and the costs that are common to clearing and settlement services for cash market transactions, but not other services.

14. Costs which cannot be attributed on a direct basis to the services identified above will be allocated based on the most appropriate cost driver, or in proportion to the annualised direct costs for each service category.

Capital costs

15. The ASX Group provides capital and liquidity to ASX Clear and ASX Settlement and also undertakes capital expenditure in relation to cash market clearing and settlement infrastructure.

16. The following principles will be applied specifically to the attribution of capital, liquidity and interest income related to cash market clearing and settlement:

- Capital provided to clearing and settlement of cash market transactions will be attributed with reference to regulatory requirements and a risk based assessment. A risk based capital charge will be applied to this capital.
- Invested capital will be attributed on a direct basis. Where capital expenditure is incurred on shared or common infrastructure, an allocation will be applied to each service based on an appropriate cost driver. A risk based capital charge will be applied to this capital.
- Any borrowings specifically utilised for the cash market clearing and or settlement services will be attributed to those functions on an actual market cost basis.
- Any provision of committed liquidity facilities from the ASX Group to cash market clearing or settlement will be transfer priced at market rates.
- Interest income earned on the investment of capital utilised by the cash market clearing and settlement facilities lodged by participants will be applied to the accounts for these facilities on an actual basis.

Management accounts

17. The application of this policy will ensure:

- costs are reported consistently in the management accounts each year;
- costs are attributed directly to or allocated between categories of services based on the substance (over the legal form) of the underlying activity or function; and
- direct costs are only allocated once to one category of services and common costs are only allocated once between categories of services.

18. Operating revenues attributed to clearing and settlement will be actual revenue recognised in accordance with ASX's accounting policies adopted for consolidated statutory reporting.

19. The income statements for the cash market clearing and settlement activities will not align with the statutory income statements of ASX Clear Pty Limited or ASX Settlement Pty Limited due to internal ASX service agreements and the inclusion of other activities in these subsidiaries.

Transfer pricing for services provided by ASX Clear or ASX Settlement

20. As set out in the Code:

- Non-discriminatory prices will be charged to all users for materially equivalent services.
- Where specific services are developed or modified in order to meet the requirements of other market operators/exchanges, ASX Clear and ASX Settlement may recover the development and on-going costs from those operators. Any charges will be non-discriminatory and consistently applied to all beneficiaries of the facilities.
- Where expenditure is incurred to develop or provide services not related to the clearing or settlement of cash market transactions, those costs will not be included in the cash market clearing and settlement accounts.