



Cash Equities Clearing, Settlement and Issuer Services

**Pricing Policy
Consultation Paper**

16 September 2024

Invitation to comment

ASX is seeking submissions in response to this consultation paper by **25 October**.

Submissions should be sent using the electronic form available [here](#). Please contact us at the email address below if you are unable to use the electronic form. If you would like your submission, or any part of it (including your identity), to be treated as confidential, please indicate this clearly in your submission. We will publish all non-confidential submissions (including your identity). Where a submission, or any part of it, is marked confidential, we will refer to the content of the submission on an anonymised basis only. We may disclose all submissions (confidential and non-confidential) to regulators. We will not otherwise disclose confidential submissions to any other third party unless we are required to do so by law, or you consent to the disclosure.

ASX is available to meet with interested parties for bilateral discussions on these matters.

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Contents

1. Overview	3
1.1. Executive Summary.....	3
1.2. Background	3
1.3. Stakeholder Engagement	5
1.4. Feedback Requested and Next Steps	5
2. The New Policy	7
2.1. Overview	7
2.2. Building Block Method	9
2.3. Annual Review Process	10
2.4. Proposed Fees Review Triggers.....	12
2.5. Independent Assurance	13
2.6. Intended Commencement Date and Transitional Measures.....	13
3. Summary of Feedback Requested	15
4. Useful Links	16
Annexure A: Draft Pricing Policy	17
Annexure B: Weighted Average Cost of Capital (WACC) Inputs	26
Annexure C: Summary of the ASX Cost and Revenue Allocation Policy	28

1. Overview

1.1. Executive Summary

ASX Clear and ASX Settlement (**'we'**) propose to adopt a new pricing policy (the **'Policy'**) from 1 January 2025 that covers the following three groups of clearing and settlement (**'CS'**) and issuer services (collectively referred to as **'CS services'**):

- > Cash equity clearing services provided by ASX Clear;
- > Cash equity settlement services provided by ASX Settlement; and
- > Issuer services provided by ASX Settlement.

The cornerstone of the new Policy will be the introduction of the Building Block Method (**'BBM'**), a widely used pricing model used across other industries, to calculate a revenue requirement for each year reflecting the efficient costs of providing CS services. The Policy is designed to ensure, through an annual review, that we recover no more than those costs, including a reasonable return on investment commensurate with the commercial risks involved.

There will be no change to the structure or level of CS services prices upon commencement of the Policy. However, the Policy will introduce new processes designed to provide greater transparency and assurance that users are paying no more than necessary for CS services.

This consultation paper seeks feedback on the key elements of the Policy, including:

- > How and when we should take action to reimburse customers for any excess revenue or recover any revenue shortfalls;
- > How and when we should take action to review the CS services fee schedules; and
- > The proposed commencement date of the new Policy.

The draft Policy is attached as Annexure A to this consultation paper. Annexure B contains information on the inputs into the allowed return on capital (one of the key inputs into the BBM), and Annexure C sets out a summary of our policy for allocating CS services costs and revenue.

1.2. Background

1.2.1 History

The proposals in this consultation paper build on existing initiatives and commitments by ASX with respect to the governance, pricing of, and access to, clearing and settlement services. We released a draft of the ASX Cash Equities Clearing and Settlement Code of Practice (the **'Code'**) in April 2013, seeking feedback on its principles with respect to user input into governance, and transparent and non-discriminatory pricing of, and access to, clearing and settlement services. We published the first version of the Code in August 2013 and it was most recently updated in April 2024.

In 2014, we commissioned a report to benchmark the fees for cash equity post-trading (clearing and settlement) services against those provided by financial market infrastructure providers in other financial centres, which concluded that the fees for post-trading services in Australia are in line with fees for similar services provided in financial centres of comparable size. We also published an internal cost allocation and transfer pricing policy for clearing and settlement of cash equities.

In December 2014, we consulted on proposed operational improvements to the Code, identifying a small number of operational improvements to increase its effectiveness and efficiency following its first year of operation, related to administrative simplification and the frequency of meetings of advisory mechanisms established by ASX under the Code.

The Council of Financial Regulators (**'CFR'**) and the Australian Competition and Consumer Commission (**'ACCC'**) (together, the **'Agencies'**) published the Regulatory Expectations for Conduct in Operating Cash Equity Clearing and

Settlement Services in Australia (**‘Regulatory Expectations’**) first in October 2016, and a revised version in September 2017. The Regulatory Expectations set out the regulatory expectations for key governance, pricing and access matters in operating cash equity clearing and settlement services while we remain the sole provider of these services.

Both before and after the publication of the Regulatory Expectations, we have continued to publish audited management accounts in respect of the clearing and settlement of cash equities, and maintain a revenue sharing arrangement in respect of our equities clearing and settlement businesses whereby we share revenue growth with our customers. We have also published annual, external audits of our compliance with the Regulatory Expectations on the ASX website.

Finally, we have sought to obtain stakeholder input into governance through various forums. In September 2023, we convened the ASX Cash Equities Clearing and Settlement Advisory Group (**‘Advisory Group’**), as a stakeholder forum for input on strategic matters related to cash equities clearing and settlement services and associated infrastructure.

1.2.2 The Code

The Code sets out how we have met, and continue to meet, our commitments to comply with the Regulatory Expectations and our commitments to customers and other stakeholders in managing cash equity clearing and settlement infrastructure and services.

Our core commitments under the Code include, but are not limited to, the following:

Customer and Stakeholder Engagement

- > Maintain two advisory forums for stakeholder input to Management and the Boards of ASX Clear and ASX Settlement in relation to cash equities clearing and settlement services and associated infrastructure, the Advisory Group and the ASX Business Committee (**‘Business Committee’**);
- > Consult the Advisory Group on key strategic issues in the provision of cash equity clearing and settlement services and associated infrastructure;
- > The Business Committee will provide a forum for broader industry input on the ongoing operation and development of cash equities clearing and settlement infrastructure and services;
- > Consult the Business Committee on its investment decisions in relation to the design, operation and development of new cash equities clearing and settlement infrastructure and services;
- > ASX CS Boards will give serious consideration to the advice and recommendations of the Advisory Group and Business Committee;
- > Report annually to the Business Committee on the cash equities clearing and settlement service developments and investment projects progressed, and how it has taken into consideration the views of users;
- > Commission an annual independent review of ASX’s governance, pricing and access arrangements benchmarked against the Regulatory Expectations and provide the draft terms of reference to the Business Committee for the opportunity to provide comments; and
- > Any interested party may provide information to ASX Clear and ASX Settlement in respect of the operation and development of cash equities clearing and settlement infrastructure and services.

Transparent and Non-Discriminatory Pricing

- > Publish on our website fee schedules for all clearing and settlement services, including a brief description of each service;
- > Set out details, including eligibility criteria, of any rebates, revenue-sharing arrangements and discounts applicable to each service in published fee schedules;
- > Will not implement price changes to materially shift revenue streams between other services;
- > Publish any increases to fee schedules for clearing and settlement services, and attest to their reasonableness;

- > Provide information to customers to assist in assessing the expected cost impacts of pricing changes and the expected cost impacts associated with new products and initiatives;
- > Annually publish management accounts for cash equity clearing and settlement services, which will be subject to review by an external auditor;
- > Publish a cost allocation and transfer pricing policy;
- > Maintain an appropriate method for determining cash equity clearing and settlement services prices so as to generate expected revenue that reflects the efficient costs of providing those services, including a return on investment commensurate with the commercial risks involved;
- > Provide non-discriminatory pricing to all customers and potential clearing and settlement services users;
- > Charge all customers non-discriminatory prices for materially equivalent services; and
- > Negotiate on commercial grounds and in good faith with other market operators regarding fees and other financial contributions charged for any extensions to the Trade Acceptance Service and Settlement Facilitation Service.

1.2.3 Draft ASIC CS Services Rules

On 30 July 2024, ASIC published a draft version of ASIC CS Services Rules which will implement obligations that are largely consistent with the Regulatory Expectations as enforceable obligations, and impose a number of additional obligations. The proposed ASIC CS Services Rules are being implemented as part of the Government's competition in clearing and settlement reforms, and are designed to facilitate competitive outcomes in the provision of CS services for Australia's financial markets.

The draft Rules propose to create obligations that are currently provided for in the Regulatory Expectations relating to the transparent, non-discriminatory, and fair and reasonable pricing of CS services (among other matters). The draft Rules also propose certain reporting, documentation and consultation obligations related to pricing matters. Once the ASIC CS Services Rules are finalised, we will consider if any further steps are required in relation to the Policy.

1.3. Stakeholder Engagement

Engagement with our stakeholders is important in formulating the Policy. So that we reach a broad range of stakeholders, we are taking a multifaceted approach to consultation, by:

- > encouraging a wide range of stakeholders to respond in writing through the public consultation processes;
- > discussing the draft Policy with the two advisory forums – the Advisory Group and the Business Committee – for stakeholder input;
- > holding industry information sessions; and
- > engaging bilaterally with impacted stakeholders where requested.

1.4. Feedback Requested and Next Steps

The stakeholders who may be impacted by the proposals in the consultation paper include users of our cash equity CS services ('users'), for both ASX-listed and non-ASX-listed securities.

Please provide your responses to the questions in this consultation paper, as listed in section 3, by **25 October 2024**. We ask that you provide your responses via the electronic form available [here](#). If you are unable to use the electronic form, please contact us at EquityPostTrade@asx.com.au for an alternative option.

If you would like your submission (including your identity) to be treated as confidential, you will have the option to indicate this in the electronic form.



ASX Limited and its related bodies corporate ('ASX') may collect your personal information as part of your submission. Any information you provide will only be used by ASX for the purposes of this consultation. It will be collected and stored securely by ASX's third party service provider, Qualtrics LLC ('Qualtrics'), but ASX will not disclose it to any other third party, including overseas recipients, unless ASX is required to do so by law or you consent to the disclosure. Unless you have indicated that you would like your submission to be treated as confidential, you hereby consent to your personal information (including your identity) being published. If you do not provide your personal information you will not be able to make a submission. Via the Qualtrics Customer Experience platform, ASX will retain this information in accordance with its corporate retention policies. See ASX's Privacy Statement for details on how ASX processes personal information, your rights in relation to your personal information held by ASX and how to contact us or make a complaint.

We will publish all non-confidential submissions (including your identity). Where a submission is marked confidential, we will refer to the content of the submission on an anonymised basis only. We may disclose all submissions (confidential and non-confidential) to regulators. We will not otherwise disclose confidential submissions to any other third party unless we are required to do so by law, or you consent to the disclosure.

For stakeholders who would like to learn more about the draft Policy and the stakeholder engagement process, we intend to hold industry information webinars during the consultation period to walk through the proposed changes contained in this consultation paper. We also remain open to engaging bilaterally with any interested stakeholders throughout the consultation period.

We will consider all feedback received to this consultation and publish our response to the feedback before the end of December 2024.

2. The New Policy

2.1. Overview

2.1.1 Key Elements

The Policy builds on our commitments in the Code to ensure Australia's CS infrastructure is efficient, well capitalised and well governed.

The proposed Policy will provide greater transparency and introduce additional processes for ensuring compliance with the Regulatory Expectations. A key element of the Policy is a new annual review mechanism that effectively caps the revenue we can receive for cash equity CS services. We have sought to design this mechanism in a way that maintains price stability and predictability for users, while also ensuring consistency around our CS services fee structure.

The key design features of the proposed Policy include a tool for determining a revenue cap and a process of annual review of actual revenue against the revenue requirement, with the aim of ensuring pricing stability. These key design features are set out below.

A Widely Used and Accepted Tool for Determining the Revenue Cap

The Code has included our commitment to the principles of transparency, cost reflectivity and non-discrimination in pricing for our clearing and settlement services since it was first published in 2013. Since then, we have monitored the Code's implementation and our compliance with the Regulatory Expectations to ensure that these principles are maintained in practice, by employing a number of tools including publishing our management accounts in respect of our clearing and settlement services and commissioning annual external audits of our compliance with the Regulatory Expectations, which are available on the ASX website.

Building on these commitments, the new Policy will employ an additional tool called the Building Block Method ('BBM'), a standard, widely used and accepted tool across other industries, to determine the annual revenue requirement – and therefore the cap on CS services revenue – for each year. Use of the BBM is designed to ensure that the revenue received for CS services is no more than the costs of efficiently delivering those services, including a reasonable rate of return commensurate with the risks involved.

The BBM's use is endorsed in industries such as energy, telecommunications and transport infrastructure by regulators including the Australian Competition and Consumer Commission and the Australian Energy Regulator ('AER'), and is widely used in essential infrastructure services in Australia which feature one provider, including:

- > Electricity networks (transmission and distribution);
- > Natural gas pipelines that are subject to tariff regulation;
- > The National Broadband Network;
- > Regulated rail networks;
- > Postal services; and
- > Urban water and sewerage services.

The BBM framework is discussed further in section 2.2 below. A key benefit of adopting this widely used tool is that customers and other stakeholders will have clear visibility of the details around how CS services pricing is set, including the model used, review cycle, thresholds for taking action with respect to an under-recovery or an over-recovery, trigger points for undertaking a review of CS services prices, and external assurance process.

We will continue to publish fee schedules for all CS services, including a description of each service, applicable terms and conditions and any rebates, revenue-sharing arrangements and discounts. If the fee schedules need material adjustments in the future to better align actual revenue with the cost recovery revenue requirement, we will consult on those proposed adjustments before publishing them, attesting to their reasonableness and providing customers with information to assist them in assessing the expected cost impacts of the adjustments.

We will also update our existing [cost allocation and transfer pricing policy](#) that describes the methodology used for allocating revenue, directly attributable costs, indirect and common shared costs and capital that relates to clearing and settlement of cash equities. A summary of this updated cost and revenue allocation policy is in Annexure C. Our management accounts will be prepared by reference to these policies and will continue to be published annually.

Annual Review

Under the proposed Policy, we will conduct an annual review of the revenue received from CS services. The purpose of this annual review is to ensure that the revenue received by ASX in each year reflects the efficient costs of delivering CS services in that year, including a reasonable return on capital. The process requires actual revenue to be compared against a 'revenue requirement' at the end of each financial year, to assess whether they match, or there is a shortfall or an excess, and whether any associated action needs to be taken. The revenue requirement will be calculated using the BBM to reflect the efficient costs of delivering CS services in the relevant year (plus a reasonable rate of return commensurate with the risks involved). The proposed annual review mechanism is discussed further in section 2.3 below.

Revenue Capping

The effect of the annual review process is that there will be a cap on the revenue that we can receive for CS services, reflecting the cost of efficiently delivering those services. This capping of revenue, combined with the fees review triggers and independent assurance proposals detailed below, will ensure that we continue to price CS services appropriately, and do not recover more than what is required. This is intended to provide our customers with certainty and confidence that our pricing remains appropriate over the long term.

Price Stability and Predictability

We recognise that our customers place value on price stability and predictability. There will, therefore, be no immediate changes to the fee schedules for current CS services from the outset of the Policy's implementation until at least the end of FY 2025 (when the first annual review is conducted), at the earliest. As discussed below, the implementation of a cost recovery model means we will only consider adjusting the CS services fee schedules if the difference between actual revenue and the revenue requirement is greater than 5% in a single financial year, or the difference accumulates to more than 5% over two or more financial years. We will seek market feedback on any proposed material changes to the CS services fee schedules through formal consultation and engagement, with the objective of ensuring that our pricing remains fair, reasonable and non-discriminatory.

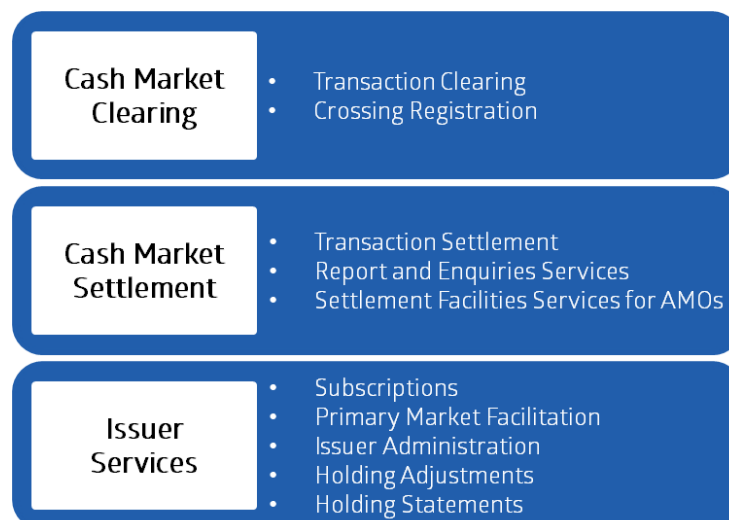
In order to maintain price stability, the Policy provides for the review of revenue against service costs using actual revenue and costs as inputs at the end of the relevant financial year (known as an *ex post* approach). This is distinct from an approach to determine service prices where forecast revenue and costs are used at the beginning of the relevant financial year (known as an *ex ante* approach). We consider that an *ex ante* model is not practical for CS services given volatility and uncertainty around service volumes, and would lead to price instability which would not be in the interests of customers. The *ex post* approach will enable actual revenue to be calibrated against costs that have actually been incurred, allowing for greater price stability and predictability while ensuring that ASX recovers no more than its efficient costs, including a reasonable return on investment commensurate with the commercial risks involved.

The Policy will require actual revenue to be compared against a revenue requirement at the end of each financial year to assess whether there is a shortfall or an excess and whether any associated action needs to be taken, as explained further below. The aim of the annual review process is to ensure, over time, that the actual revenue received each year closely matches the target cost recovery revenue requirement.

2.1.2 Service Scope

The new Policy sets out how we will price the following three groups of CS services, as represented in Figure 1 below:

Figure 1: ASX Cash Equity Clearing and Settlement Lines of Business



2.1.3 Treatment of Costs Associated with the Previous Iteration of CHESS Replacement

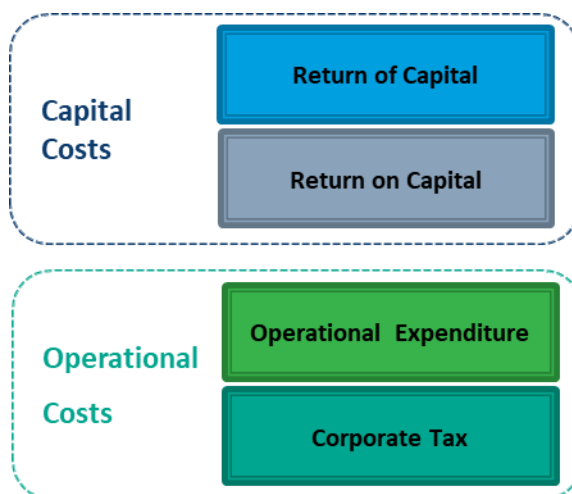
The Policy will not recover previous write-offs related to the [previous iteration of the CHESS Replacement Project](#), nor will it fund or recover any previous or future payments under the [CHESS Replacement Partnership Program](#). Implementation of the Policy will not result in any changes to the current CS services fee schedules until the end of FY 2025 at the earliest.

2.2. Building Block Method

The BBM is the tool that will be used to calculate the economic cost of providing CS services for a particular financial year. It involves determining a ‘revenue requirement’ for each financial year, which is calculated as the sum of four cost ‘building blocks’, as represented in Figure 2 below:

1. Return of capital (depreciation on invested capital, representing the allocation of investment costs over the capital’s useful life);
2. Return on capital (the cost needed to cover the costs of investment in assets, i.e. returns to equity and debt holders), at a rate of return which reflects the risk involved in providing CS services. Market parameters for the rate of return will be calculated in line with the Rate of Return Instrument, a standard regulatory methodology published by the AER. Further details on the calculation of the return on capital can be found in Annexure B);
3. Operating costs (day-to-day costs of running the CS services businesses, allocated in accordance with the ASX Cost and Revenue Allocation Policy, a summary of which is included in Annexure C); and
4. The cost of corporate tax (the corporate tax on taxable income, adjusted for the value of imputation credits that are created when corporate tax is paid).

Figure 2: Building Blocks of the BBM



As explained earlier, the model will operate on an *ex post* basis, using actual costs as inputs rather than forecast costs.

ASX has always adopted a prudent approach to managing its expenditure and cost base to meet the expectations of its shareholders and stakeholders. There will be no change to this prudent cost management approach when the new Policy is implemented, nor is it the intent of the Policy to change this approach.

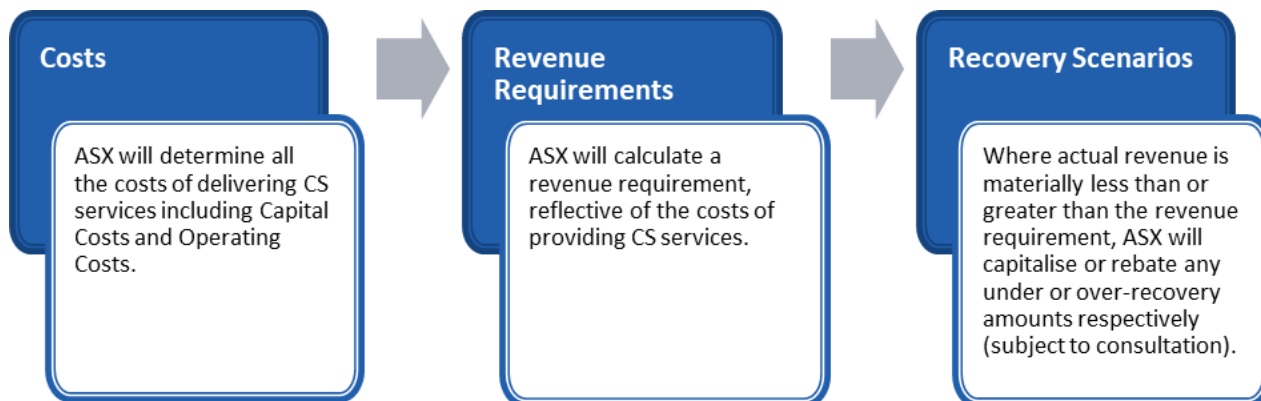
2.3. Annual Review Process

At the end of each financial year starting at the end of FY 2025, a review will be conducted to compare the actual revenue received from CS services to the BBM revenue requirement, resulting in one of the following potential outcomes:

- > **Under-Recovery:** occurs when actual revenue is less than the revenue requirement for the relevant year;
- > **At Target:** occurs when actual revenue reflects the revenue requirement for the relevant year, or is within a proposed materiality threshold; or
- > **Over-Recovery:** occurs when actual revenue exceeds the revenue requirement for the relevant year.

An under or over-recovery beyond the proposed materiality threshold described in section 2.3.1 will trigger an under or over-recovery process. This annual review process is represented in Figure 3 below:

Figure 3: Pricing Policy Annual Review Process



The details of the outcome from comparing the revenue received against the revenue requirement and the management accounts will be published on the ASX website following the completion of each annual review.

2.3.1 Materiality Threshold(s) for Triggering an Under/Over-Recovery Process

Given the large number of users who would be involved in an under/over-recovery process, triggering payments to or from customers for an immaterial difference between the actual revenue and the revenue requirement in a particular financial year may result in more administrative overhead for ASX and users than benefit gained. The distribution of any over-recovery amount needs to be large enough that the majority of customers will receive a material rebate.

Therefore, we propose to implement a materiality threshold to operate above and below the target revenue requirement. The under/over-recovery process would only be triggered if the difference between the actual revenue and the revenue requirement exceeds the relevant materiality threshold. The threshold for an under-recovery scenario could be the same as, or different to, that for an over-recovery scenario, however a materiality threshold for an under-recovery scenario will only be relevant under Option 2 in the following section.

A materiality threshold dollar value amount of \$1 million is proposed for both under and over-recoveries relative to the revenue requirement. Setting the threshold at this amount would result in 97% of ASX customers receiving a rebate of at least \$10 in an over-recovery scenario.

FEEDBACK REQUESTED:

1. Do you agree with the proposal to implement a materiality threshold(s)? Please justify your response.
 2. If yes, should the materiality threshold below the revenue requirement (for an under-recovery process) and the materiality threshold above the revenue requirement (for an over-recovery process) be the same, or should there be a different threshold for each (i.e. two thresholds)? Please provide a justification for your response.
 3. Do you agree with the proposal to implement a materiality threshold dollar value amount of \$1 million for both under and over-recoveries relative to the revenue requirement? If not, please provide an alternative dollar value amount suggestion(s) and justify your response.
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2.3.2 Options for Under and Over-Recoveries

The annual review process may result in the calculation of a material under or over-recovery amount to be invoiced or returned to each user. In effect, this calculation will reflect the amount of revenue in shortfall or excess of the revenue requirement, divided by the user's weighted contribution to revenue.

There are two potential options as part of the process for under and over-recoveries beyond the proposed materiality threshold which we are seeking feedback on. This is separate to the circumstances upon which we would review the CS services fee schedules themselves, which is discussed in section 2.4.

Option 1 (as proposed in the draft Policy):

- > Material over-recoveries are immediately reimbursed to users for each year in which a material over-recovery occurs; and
- > Under-recoveries are capitalised by ASX for the relevant financial year, and held to be offset against any future over-recoveries.
- > The benefit of this option would be that customers receive their proportion of a material over-recovery as soon as feasible after the annual review, while no immediate action will be taken in respect of an under-recovery amount.

Option 2:

- > Material over-recoveries are immediately reimbursed to users for each year in which a material over-recovery occurs; and
- > Material under-recoveries are immediately invoiced to users for each year in which a material under-recovery occurs.

Under or over-recoveries will be invoiced/expensed or returned to users within four months of the conclusion of the annual review process, which will occur at the end of each financial year.

By consulting with the market on the most appropriate option, our aim is to strike the optimal balance between maximising user efficiencies and minimising administrative overheads.

When reimbursing users, we will issue a credit note, providing the option for users to take their over-recovery amount as either:

- > an offset of the credit against current or future charges; or
- > a direct electronic transfer.

FEEDBACK REQUESTED:

4. Which of the two options for an under or over-recovery beyond the proposed materiality threshold are you most in favour of? Please provide a justification for your selection.
 5. Are there any other aims, objectives or considerations which we should take into account in determining which under or over-recovery option to proceed with?
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2.4. Proposed Fees Review Triggers

One of our objectives in implementing the Policy is to ensure, over time, that CS services fees are calibrated such that each annual review process results in actual revenue being as close as possible to the revenue requirement. This is designed to provide certainty and confidence to users that our pricing remains stable, predictable and appropriate, while minimising administrative overhead.

We therefore propose to review the CS services fee schedules when certain trigger events occur. We propose to implement two triggers (the '**fees review triggers**'), which would operate independently of each other, for ASX to conduct a review of its CS services fee schedules:

1. The under or over-recovery amount in a single financial year is greater than 5% relative to the revenue requirement; or
2. The cumulative total amount of under-recovery or over-recovery over any period of time is greater than 5% relative to the revenue requirement for the most recent financial year.

The first fees review trigger is intended to recognise the fact that CS services revenue and costs can vary from year to year due to various, often-transitory factors outside of ASX's control, including changes in service volumes. We do not intend to adjust fee schedules each year in response to transitory fluctuations in market variables, however a more substantial under or over-recovery of greater than 5% relative to the revenue requirement may be an indication of a more inherent or fundamental issue with the CS fee schedules themselves, warranting further investigation through a fees review.

As an indicative guide to the operation of the triggers, using the actual revenue received for cash market CS services of \$188.2 million in FY 2024 as a proxy for a target revenue requirement, these triggers would be set at a difference of more than \$9.4 million relative to the revenue requirement. This means that receiving revenue of less than \$178.8 million (an under-recovery scenario) or more than \$197.6 million (an over-recovery scenario) in that financial year

would breach the first fees review trigger. The second fees review trigger would be breached if the total under or over-recovery amount for that financial year, when combined with the under or over-recovery amount(s) from a previous financial year(s), is greater than \$9.4 million.

The occurrence of either or both of these fees review triggers would require ASX to conduct a review of the appropriateness of its CS services fee schedules and whether they should be adjusted to better meet the objective described above. This review may conclude that the fee schedules need to be adjusted, or that they do not need to be adjusted, in which case the existing CS services fee schedules would be retained. Any proposed adjustments to those fee schedules resulting from the review would be the subject of market consultation.

We are seeking feedback on the appropriateness of these triggers, and any alternative options to ensure that the objectives of long-term price stability, predictability and appropriateness for users are met.

FEEDBACK REQUESTED:

6. Do you agree with the proposal to implement the first 'fees review trigger' as described? Please provide a justification for your response.
 7. Do you agree with the proposal to implement the second 'fees review trigger' as described? Please provide a justification for your response.
 8. If implemented as proposed, do you consider that the fees review triggers will strike the optimal balance between ensuring that the CS services fee schedules consistently align with annual revenue requirements, and minimising the frequency of adjustments to those fee schedules?
 9. How will your organisation be impacted by the potential frequency of adjustments to the CS services fee schedules based on the operation of the two proposed fees review triggers? Please justify your response, including whether the impacts would be the same for a downward vs an upward adjustment to the CS services fee schedules.
 10. Should ASX consider implementing any other fees review triggers? If yes, please describe the trigger(s) in detail.
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2.5. Independent Assurance

Independent assurance will support the implementation of and confidence in the Policy, including the annual review mechanism and application of the BBM. The proposed ASIC CS Services Rules will require ASX to continue to publish annual, audited management accounts for its cash equity clearing and settlement services, including ASX's Cost and Revenue Allocation Policy between ASX group entities for clearing and settlement of cash equities in Australia ('Allocation Policy'). We will engage an appropriately qualified independent expert to conduct, prepare and publish a written report about the appropriateness of the Allocation Policy before the commencement of the Pricing Policy, and each time there is a material change to the Allocation Policy or every three years, whichever comes first.

For clarity, these activities will be undertaken in addition to the internal review and external audit of ASX's governance, pricing and access arrangements benchmarked against the Regulatory Expectations, which has been undertaken annually since 2014, and, going forward, the annual external audit of compliance with the ASIC CS Services Rules.

2.6. Intended Commencement Date and Transitional Measures

We are proposing that the Policy will commence on **1 January 2025**. It is proposed that the first annual review under the Policy will commence at the end of FY 2025 and that it will be pro-rated, taking into account the costs, capital and revenue from 1 January 2025 to 30 June 2025.



When the ASIC CS Services Rules are made, we will also review the Policy in its totality, to determine if any amendments need to be made to ensure that the Policy is compliant with those rules. In any case, the Policy will be reviewed every three years.

The Revenue Sharing Scheme (**'Scheme'**) was established in 2013 under the current fee model and applies to cash market CS participants. As the new Policy will introduce an annual review mechanism and provide for the return of over-recovery amounts to users in a similar manner to the payments under the existing Scheme, we intend to replace the Scheme with the new Policy. Any applicable payments under the Scheme for the period from 1 July 2024 to 31 December 2024 will still be made.

FEEDBACK REQUESTED:

11. Do you support a commencement date of the new Policy of 1 January 2025? Please provide an explanation for your support or alternative suggestion(s).

We also reiterate that no changes to current CS services fee schedules will be made from the outset of implementation of the Policy until at least the end of FY 2025, with any potential material fee adjustments beyond that date to be the product of the outcomes of both a fee schedules review and prior consultation with users.

3. Summary of Feedback Requested

1. Do you agree with the proposal to implement a materiality threshold(s)? Please justify your response.
2. If yes, should the materiality threshold below the revenue requirement (for an under-recovery process) and the materiality threshold above the revenue requirement (for an over-recovery process) be the same, or should there be a different threshold for each (i.e. two thresholds)? Please provide a justification for your response.
3. Do you agree with the proposal to implement a materiality threshold dollar value amount of \$1 million for both under and over-recoveries relative to the revenue requirement? If not, please provide an alternative dollar value amount suggestion(s) and justify your response.
4. Which of the two options for an under or over-recovery beyond the proposed materiality threshold are you most in favour of? Please provide a justification for your selection.
5. Are there any other aims, objectives or considerations which we should take into account in determining which under or over-recovery option to proceed with?
6. Do you agree with the proposal to implement the first 'fees review trigger' as described? Please provide a justification for your response.
7. Do you agree with the proposal to implement the second 'fees review trigger' as described? Please provide a justification for your response.
8. If implemented as proposed, do you consider that the fees review triggers will strike the optimal balance between ensuring that the CS services fee schedules consistently align with annual revenue requirements, and minimising the frequency of adjustments to those fee schedules?
9. How will your organisation be impacted by the potential frequency of adjustments to the CS services fee schedules based on the operation of the two proposed fees review triggers? Please justify your response, including whether the impacts would be the same for a downward vs an upward adjustment to the CS services fee schedules.
10. Should ASX consider implementing any other fees review triggers? If yes, please describe the trigger(s) in detail.
11. Do you support a commencement date of the new Policy of 1 January 2025? Please provide an explanation for your support or alternative suggestion(s).

4. Useful Links

[ASX Cash Equities Clearing and Settlement Code of Practice \(April 2024\)](#)

ASX [Code of Practice](#) webpage

Council of Financial Regulators [Regulatory Expectations for Conduct in Operating Cash Equity Clearing and Settlement Services in Australia](#) (September 2017)

[ASX Business Committee](#)

[ASX Cash Equities Clearing and Settlement Advisory Group](#)

ASX [Clearing and settlement of cash equities in Australia](#) webpage

[ASIC Consultation Paper 379 ASIC CS Services Rules](#)

Cash Equities Clearing, Settlement and Issuer Services Pricing Policy

Draft for Consultation

16 September 2024

DRAFT

1. Cash Equities Clearing, Settlement and Issuer Services Pricing Policy ('Pricing Policy')

- 1 This Pricing Policy sets out the methodology for determining and reviewing prices for:
- (a) Cash equity clearing services provided by ASX Clear;
 - (b) Cash equity settlement services provided by ASX Settlement; and
 - (c) Issuer services provided by ASX Settlement.

This group of services is referred to in this Pricing Policy as **CS services**.

- 2 As the sole licensed operator of clearing and settlement facilities for the Australian cash equities market, ASX recognises the importance of its clearing and settlement services to its customers. ASX is committed to ensuring Australia's clearing and settlement infrastructure is efficient, well capitalised, and well governed. ASX values working collaboratively with customers and other stakeholders to deliver world-class financial infrastructure and clearing and settlement services that meet the needs of a diverse range of users in the Australian cash equities market.
- 3 CS services are provided through the Clearing House Electronic Subregister System ('**CHES**S'). ASX is currently planning for a new system to replace CHES S ('**CHES**S Replacement'). This Pricing Policy is intended to apply to CS services both in the lead up to and following CHES S Replacement.

2. Purpose of this Pricing Policy

- 4 The Council of Financial Regulators' Regulatory Expectations for Conduct in Operating Cash Equity Clearing and Settlement Services in Australia ('**Regulatory Expectations**') and the ASX Cash Equities Clearing and Settlement Code of Practice (the '**Code**'), published in response to the Regulatory Expectations, acknowledge the importance of ASX's clearing and settlement services to the Australian market.
- 5 In the Code, ASX has committed to the principles of transparency and non-discrimination in pricing its CS services. This includes ASX maintaining an appropriate method for determining the prices of its cash equities clearing and settlement services so as to generate expected revenue that reflects the efficient costs of providing those services, including a return on investment commensurate with the commercial risks involved.
- 6 The Purpose of this Pricing Policy is to build on this commitment and provide transparency on ASX's proposed approach to determining CS services pricing. It is intended to:
- (a) establish additional processes for ensuring and demonstrating that the revenue from the provision of CS services reflects the efficient costs of providing those services, including a return on investment commensurate with the commercial risks involved; and

- (b) provide further transparency around the policies and procedures for implementing any changes to CS pricing.

3. Ensuring that Our Pricing Aligns with the Regulatory Expectations

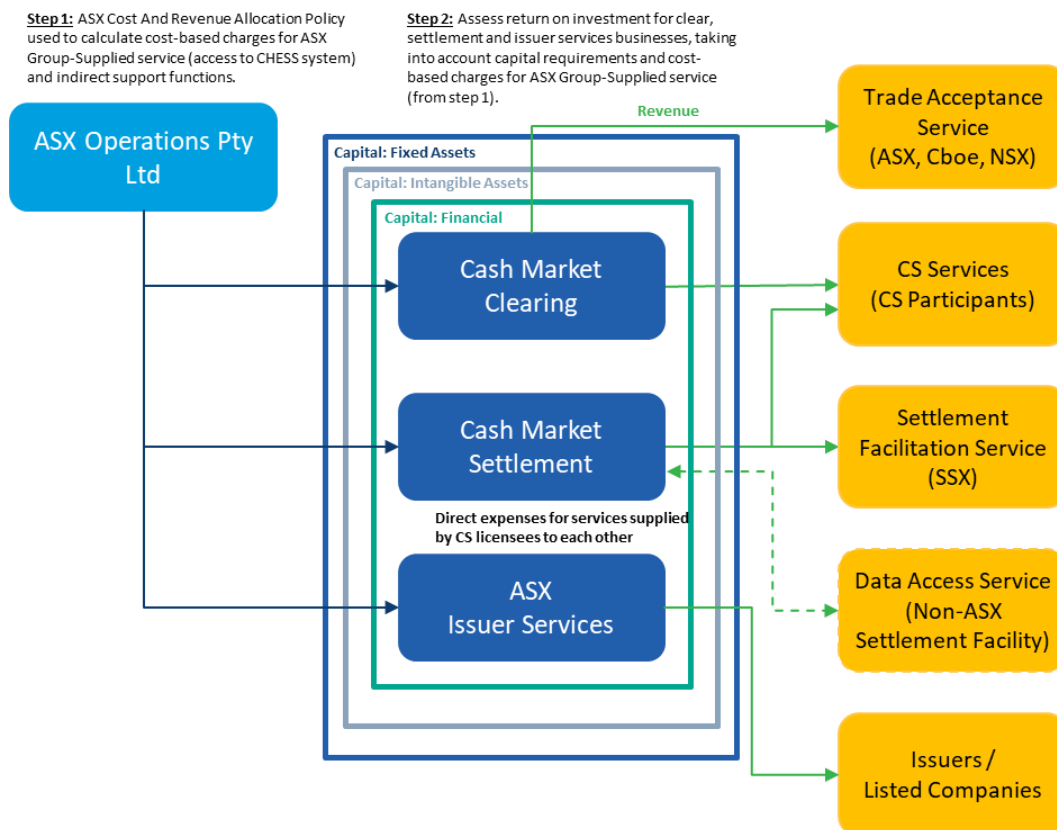
3.1 Transparency and Non-Discrimination

- 7 ASX is committed to being transparent with its customers around CS service pricing. ASX publishes CS service fee schedules on its website, and this Pricing Policy explains how ASX ensures that its pricing aligns with the Regulatory Expectations.
- 8 ASX is also committed to non-discriminatory pricing. ASX will not discriminate in favour of any CS service customers (including any ASX-affiliated entities), except to the extent that the efficient cost of providing the same service is different between customers.

3.2 Ensuring that ASX Recovers No More than its Efficient Costs

- 9 ASX will adopt the Building Block Method ('**BBM**') as part of its process for ensuring that the revenue generated by CS service prices is no more than necessary to recover the efficient costs of service provision, including a reasonable return on investment. The BBM is a well-established tool frequently used by Australian regulators to ensure that prices for access to essential infrastructure reflect the efficient costs of providing that access.
- 10 The BBM operates by calculating a 'revenue requirement' for each year which reflects the efficient cost of delivering CS services. This is calculated as the sum of four cost building blocks:
 - (a) a return of capital (depreciation on invested capital, representing the allocation of investment costs over the capital's useful life);
 - (b) a return on capital (the cost needed to cover the costs of investment in assets, i.e. returns to equity and debt holders), at a rate of return which reflects the risk involved in providing CS services. Market parameters for the rate of return will be calculated in line with the Rate of Return Instrument, a standard regulatory methodology published by the Australian Energy Regulator ('AER');
 - (c) operating costs (day-to-day costs of running the CS services businesses, allocated in accordance with the ASX Cost and Revenue Allocation Policy); and
 - (d) the cost of corporate tax (the corporate tax on taxable income, adjusted for the value of imputation credits that are created when corporate tax is paid).
- 11 At the end of each financial year, ASX will conduct an annual review, using the BBM to calculate the economic cost of providing CS services for a particular year and compare this to the revenue that was earned for that year.

- 12 ASX will apply the BBM as part of an *ex post* annual review of costs and revenue for CS services for each financial year. Where actual revenue from CS services materially exceeds the BBM revenue requirement in any financial year, the over-recovery amount will be returned to customers. This will ensure that ASX cannot recover more than the efficient costs of delivering CS services through its prices for those services. The annual review process and over-recovery payment mechanism is further explained in section 1.5 below.
- 13 The economic cost of providing the CS services for each year will include:
- (a) *CHES* costs – the costs of maintaining and operating CHES;
 - (b) *CS services operating costs* – operating costs for ASX’s clearing, settlement and issuer operations, including a fair allocation of overhead costs; and
 - (c) *Cost of holding risk capital* – the cost associated with financial risk capital held for operations relating to CS services, reflecting ASX’s regulatory obligations to safeguard participants’ assets. This includes a default capital fund and operational and business risk capital held for CS services.
- 14 The role of the BBM in ASX’s framework for assessment of CS services pricing is shown in the diagram below.



3.3 Changes to CS Services Fee Schedules

- 15 Any changes to the CS services fee schedules will be made in accordance with this Pricing Policy. Where a change is required, ASX will consult on any proposed updates to the CS services fee schedules before publishing them along with an explanation for any change.
- 16 As required by the Regulatory Expectations, any changes to the CS services fee schedules will not be implemented in a way that would materially shift revenue streams between aspects of ASX's trading, clearing, settlement and issuer services.

3.4 Cost Allocation

- 17 ASX is required to maintain an appropriate model for the internal allocation of costs, including the cost of allocated capital, as well as policies to govern the transfer of prices between the relevant ASX Group entities.
- 18 ASX intends to allocate costs under this Pricing Policy in accordance with ASX Cost and Revenue Allocation Policy, dated [date] ('**Cost Allocation Policy**'). The Cost Allocation Policy describes the manner in which costs will be allocated to clearing, settlement and issuer functions in the preparation of those accounts.
- 19 Cost allocation under this Pricing Policy relates to the attribution of ASX's directly attributable costs to CS services and the allocation of common or indirect costs.
- 20 For how ASX will determine the allocation of costs for CS services, please refer to the Cost Allocation Policy which be found [here].

4. Annual Review of Revenue from CS Services

4.1 Annual Review

- 21 ASX's revenue from CS services will be reviewed annually to ensure ASX is recovering no more than its efficient costs, including a reasonable return on investment. The purpose of this annual review is to align prices with a target revenue requirement commensurate with efficient costs and the risks involved in the delivery of CS services.
- 22 ASX proposes the annual review process to operate as follows:
 - (a) No later than 30 September of each year during the term of this Pricing Policy, ASX will conduct a review of actual revenue for CS services for the prior financial year. The purpose of this review will be to determine whether actual revenue was above or below the 'revenue requirement' for that financial year. As explained in section 1.6 above, the revenue requirement for each financial year will be calculated using the BBM, and will therefore reflect the efficient costs of delivering CS services in the relevant year, including a reasonable return on capital.
 - (b) Where the achieved revenue is less than the revenue requirement, or the achieved revenue exceeds the revenue requirement by not more than \$1 million, the

difference will be held for offsetting against any future under or over-recovery ('recovery offset').

- (c) Where the achieved revenue is more than the revenue requirement, ASX will calculate an over-recovery amount to be returned to customers. The over-recovery amount will be calculated as the amount of revenue in excess of that required to recover the revenue requirement. If the over-recovery amount exceeds \$1 million (in aggregate across all customers), ASX will immediately return the excess amount to customers through a reconciliation payment (subject to any recovery offsets previously held). If the over-recovery amount is \$1 million or less, this will be held over for payment or offsetting against under-recovery in future years.
- (d) ASX will publish the outcome of the annual review each year on its website.

23 The annual review mechanism is shown in Figure 1 below.

4.2 Revenue Requirement

24 ASX will determine the revenue requirement for each year that reflects the efficient costs of delivering the CS services. This is calculated as the sum of the four cost building blocks mentioned in section 1.2.

25 To calculate a reasonable return on capital, ASX will use a target rate of return for each financial year as a weighted average cost of capital ('**WACC**'). The WACC is a weighted average of the cost of debt and the cost of equity, with the weights reflecting the relative amounts of debt and equity funds appropriate for the CS services.

26 The parameters and methods that will be used to calculate the WACC are set out in the table below. These reflect standard and well-accepted regulatory methods. For parameters that are not specific to ASX (all parameters other than the asset beta), methods are aligned with the Rate of Return Instrument published by the Australian Energy Regulator ('**RORI**').¹ The asset beta has been determined so as to reflect the degree of risk faced by ASX in providing CS services.

WACC Input	ASX parameter value / methodology
Risk free rate	The risk-free rate for each financial year will be calculated as a simple average of the daily yield-to-maturity for 10-year Commonwealth Government Securities, averaged over all business days in the relevant financial year. The relevant yield data will be sourced from the Reserve Bank of Australia (currently RBA Statistical Table F16: Indicative Mid Rates of Selected Australian Government Securities).

¹ The Rate of Return Instrument sets out the approach that will be adopted by the AER to estimate the rate of return for regulated energy network businesses. The AER publishes a new Instrument every 4 years that is then binding for all regulatory determinations in the subsequent 4 years. The AER most recently published a RORI in February 2023.

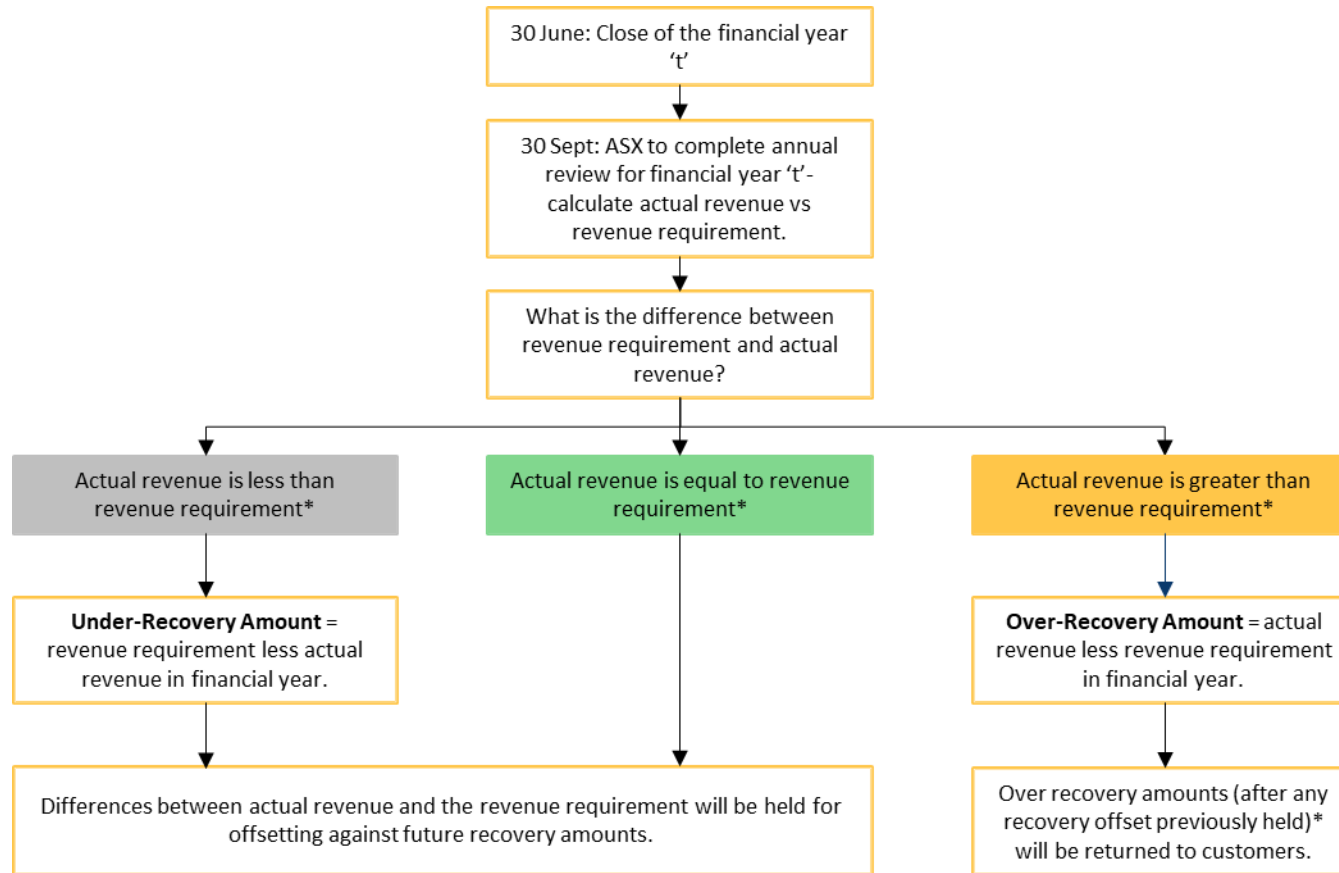
Asset beta	1.20
Market risk premium	As specified by the AER in the RORI (currently 6.2%).
Gearing	0% debt / 100% equity
Tax rate	30%
Value of imputation credits (gamma)	As specified by the AER in the RORI (currently 0.57).

4.3 Review of CS Services Fee Schedules

27 ASX understands that its customers place value on the stability and predictability of ASX's pricing. ASX will therefore review and consider varying its CS services fee schedules only if there is a material or sustained mismatch between achieved revenue and the revenue requirement. A review will be conducted if:

- (a) the under or over-recovery amount in a single financial year is greater than 5% of the revenue requirement; or
- (b) the cumulative total amount of under-recovery or over-recovery over any period of time exceeds 5% of the revenue requirement for the most recent financial year.

Figure 1: Annual Review Mechanism



* Within a materiality threshold

5. Operation and Review of this Pricing Policy

- 28 This Pricing Policy is intended to commence operation on 1 January 2025.
- 29 The Pricing Policy will be reviewed no later than 3 years after its commencement, with a view to updating and/or amending it as necessary. As part of this review, ASX will:
- (a) assess the need for changes to clearing, settlement and issuer services pricing to reflect changes in the cost base;
 - (b) consider potentially significant capital expenditure associated with a replacement system;
 - (c) consider any changes to clearing, settlement and/or issuer services delivery; and
 - (d) consider any impact of increased competition and/or reduced demand.

Annexure B: Weighted Average Cost of Capital (WACC) Inputs

The rate of return on capital will be calculated as a Weighted Average Cost of Capital ('WACC'). The WACC is a weighted average of the cost of debt and the cost of equity, with the weights reflecting the relative amounts of debt and equity funds appropriate for the CS services.

The parameters and methods that will be used to calculate the WACC are set out in the table below.

These reflect standard and well-accepted regulatory methods. For parameters that are not specific to ASX (all parameters other than the asset beta), methods are aligned with the Rate of Return Instrument ('RORI') published by the Australian Energy Regulator ('AER'). The asset beta has been determined so as to reflect the degree of risk faced by ASX in providing CS services.

WACC Input	Rate	ASX Parameter Value / Methodology
Risk-free rate	4.10%	The risk-free rate for each financial year will be calculated as a simple average of the daily yield-to-maturity for 10-year Commonwealth Government Securities, averaged over all business days in the relevant financial year.
Asset beta	1.20	The asset beta reflects the risk faced by ASX in providing CS services (a sub-component of ASX Limited's overall activities).
Market risk premium	6.20%	As specified by the AER in the RORI.
WACC	11.54%	
Gearing		0% debt / 100% equity
Tax rate	30%	
Value of imputation credits (<i>Gamma</i>)	0.57	As specified by the AER in the RORI.

Estimation of the Asset Beta

The asset beta for an activity is a measure of the risk of that activity that is reflected in the cost of capital.

Estimating the asset beta for CS services involves two steps:

1. ASX Limited beta estimate: The asset beta for the overall activities of ASX Limited can be estimated based on an average of the empirically observed asset betas for a sample of firms that undertake similar activities ('comparable entities').
2. CS services beta estimate: An asset beta specifically for CS services can be estimated based on the ASX Limited beta estimate and an assessment of the relative risk associated with CS services and other activities undertaken by ASX Limited. The asset beta for CS services could, in theory, be higher or lower than the ASX Limited beta estimate, if the degree of risk faced in supplying CS services is higher or lower than other group activities.

Each of these steps is explained below.

ASX Limited Beta Estimate

The asset beta for ASX Limited has been estimated based on observed beta values for a sample of comparable entities. This is a method that is commonly applied by regulators such as the ACCC and AER to estimate the asset beta for regulated businesses.

For ASX Limited, the analysis involved the following steps:

- > A sample of 12 comparable entities was identified. This sample comprises security and commodity exchange businesses in developed economies meeting minimum liquidity and size criteria.
- > The estimated equity beta was taken from Bloomberg for each entity in the sample. Estimates were taken for two five-year periods ending 31 December 2019 and 31 December 2014, so that ten years of data could be analysed (but excluding the period affected by the Covid-19 pandemic).
- > Estimated equity betas (which are affected by the leverage of the firms in question) were converted to asset betas (which have the effect of leverage removed, and so are comparable), applying estimates of the leverage of the comparable entities.
- > An asset beta was estimated for ASX Limited based on average beta values across the sample in each of the five-year intervals, and based on weekly and monthly observations.

This analysis indicates a benchmark asset beta of 0.85 is appropriate for ASX Limited's overall activities.

CS Services Beta Estimate

CS services comprise approximately 20% of ASX Limited's overall revenue. This is a different situation to most regulated infrastructure, where the regulated activities typically comprise more than half – and often a much higher share – of overall activities. Accordingly, while the asset beta for ASX Limited's overall activities is the appropriate starting point, it is necessary to consider how the asset beta of CS services compares to the overall activities of the group.

CS services revenue is likely to be more exposed to movements in market returns compared to other services supplied by ASX Limited. Revenue for CS services is related to the value of market trading and (in the case of issuer services) initial public offering ('IPO') activity. In contrast, revenue for many other services supplied by ASX Limited – such as technology and data services – is not closely linked to market activity. It may therefore be expected that the CS services asset beta would be higher than the overall asset beta for ASX Limited.

This is supported by empirical analysis and past experience. For example, during the global financial crisis ('GFC'), CS revenue fell much more significantly (in line with market movements) compared to revenue for non-CS services. The difference in revenue sensitivity to market movements during the GFC suggests that the CS services asset beta may be up to four times higher than the beta for other services supplied by ASX Limited.

On a conservative basis, ASX Limited has estimated a CS services asset beta of 1.2. Given a group-wide asset beta of 0.85, this would imply an asset beta for other ASX Limited activities (outside CS services) of 0.76. An asset beta of 1.2 is not as high as might be suggested by the GFC experience, but reflects a moderately higher market risk exposure for CS services compared to the remainder of ASX Limited.

Annexure C: Summary of the ASX Cost and Revenue Allocation Policy

The policy outlines the principles to be applied for cost and revenue allocation when preparing the financial profitability and financial metrics for a section of the ASX Group ('ASX'). A 'section of the ASX' could be any relevant grouping that is required to be analysed, (i.e. line of business, a grouping of products etc). The revenue and cost to be allocated to sections of the ASX must equal the audited ASX statutory financial statements.

Cost Allocation

The allocation of costs will be largely driven by the nature of the expense and alignment to the relevant section of the business. Where possible, ASX will first determine the cause or driver of the cost and allocate to the sections of the business that are driving the costs. Costs include both direct and indirect costs:

- > **Direct costs** are costs that are directly attributable to a section of the business, based on the nature and relationship of the cost to the operations of that business. Direct costs can be allocated either in whole or in part to a section of the business. If allocated in part, an appropriate and reflective driver of the cost is to be used to allocate.
- > **Indirect costs** are generally corporate or enterprise-wide costs with no clear driver, requiring the use of an appropriate allocation driver most closely correlated to the nature of the expense.

Example of an application of the above principles for occupancy costs:

Direct occupancy costs:

- Each site's occupancy costs are to be allocated to the section of the business that directly utilises the site in its business operations.
- If the site is shared but not enterprise-wide, allocation is to be driven by the proportional utilisation of the site by the relevant sections of the business, by occupied floor space, number of cabinets or another discrete usage unit specific to the nature of the underlying site.

Indirect occupancy costs:

- Occupancy costs incurred for a site utilised for enterprise-wide purposes are to be allocated based on Direct FTE (full-time equivalent) staff %, or another driver determined to be aligned to the nature of the underlying expense.

Revenue Allocation

Revenue allocation is the attribution of ASX's revenue to sections of the business, where deemed material or required by regulatory obligations. Internal reporting currently reflects the appropriate allocation of revenue to the sections of the business, but in the event of revenue allocation for regulatory obligations the principles are as follows:

- > Revenue is attributed to the section of the business based on the nature and source of the revenue and their relationship to the section of the business, i.e. allocated based on substance over legal form.
- > Non-discriminatory prices will be charged to all users for materially equivalent services. This means that where an equivalent service is being provided to a third party, revenue allocation will be equal to the price charged to the third party.
- > Where the relevant service is not provided externally, a proxy for the market price, or the actual market price, is used in the revenue allocation calculation.

Example of an application of the above principles:

- Section A of the business earns revenue from customers for a product (this is the actual market rate), which is enabled by another section B providing a product or service to section A.

A fair component (situation-dependent but for example 80-100%) of section A's revenue will be attributed to the enabling business area section B, based on a proxy for the market rate or the actual market rate (e.g. actual market rate is known, therefore use revenue earned by Section A from the customer).