



ASX Cash Equities Clearing, Settlement and Issuer Services Consultation

Questions and Answers

16 September 2024

Q: What is ASX proposing to change?

A: ASX Clear and ASX Settlement (**'we'**) are proposing to adopt a new pricing policy for our cash equity services (the **'Policy'**). The new Policy will build on our existing commitments in the Cash Equities Clearing and Settlement Code of Practice (the **'Code'**) to ensure our clearing and settlement (**'CS'**) and issuer services pricing remains fair, reasonable, transparent and non-discriminatory and that prices for those services remain stable and predictable.

The new Policy will implement a cost recovery model, using a new methodology whereby we will only recover the efficient costs of providing cash equity services, plus a reasonable rate of return commensurate with the risks involved. The pricing model is widely used across other industries, and will introduce a cost recovery mechanism and a cap on revenue for cash equity services.

In implementing the Policy, we have regard to the principles of:

- Ensuring user input into governance of pricing;
- Ensuring continued transparency of how ASX sets fees;
- Customer fairness and non-discriminatory pricing of, and access to, cash equity services;
- Capping revenue at only what is required to efficiently deliver our cash equity services (plus a reasonable rate of return); and
- Price stability and predictability.

Q: Who is impacted by this change?

A: The stakeholders who may be impacted by the proposals in the consultation paper include users of our cash equity services (**'users'**), for both ASX-listed and non-ASX-listed securities, which currently numbers approximately 2,500 entities.

We also invite any other interested stakeholders who wish to provide feedback to do so.

Q: Which services will be subject to the new pricing?

A: The new Policy sets out how we will price the following three groups of cash equity services:

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

Q: What is ASX seeking feedback on?

A: 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 cash equity services fee schedules; and
- The proposed commencement date of the new Policy.

Q: When will the new Policy be implemented?

A: ASX is proposing that the new Policy commence on 1 January 2025.

Q: Why is ASX implementing this change to CS services pricing now?

A: The Policy proactively builds on our commitments in the Code to ensure Australia's CS infrastructure is efficient, well capitalised and well governed. We ensure that we meet the Council of Financial Regulators' Regulatory Expectations ('**Regulatory Expectations**') and our commitments to users in the Code on an ongoing basis, and look for opportunities to build on these commitments wherever possible. We will also have regard to the proposed ASIC CS Services Rules.

The initiative to adopt a new Policy was originally planned to be implemented at the time of implementation of the first iteration of the CHES Replacement Project before its pause in November 2022. With implementation of Release 1 of the Project now planned for Q1 or Q2 2026, and implementation of Release 2 proposed in 2029, we consider that users' interests will be better served by implementing the Policy as soon as possible.

Q: How will the new Policy work?

A: The Policy employs the Building Block Method ('**BBM**'), a standardised, widely used and accepted pricing tool across other industries, to ensure that the revenue received for our cash equity services is no more than the costs of efficiently delivering those services plus a reasonable rate of return commensurate with the risks involved. The BBM operates by estimating the economic cost of providing cash equity services for a particular year and comparing it to the revenue received for that year. It involves determining a 'revenue requirement' for each year, which is calculated as the sum of four cost 'building blocks':

1. Return of capital (depreciation on invested capital, representing the allocation of investment costs over the capital's useful life);
2. 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 cash equity services and calculated in line with the Rate of Return Instrument, a standard regulatory methodology published by the Australian Energy Regulator ('**AER**');
3. Operating costs (day-to-day costs of running the businesses, allocated in accordance with the ASX Cost and Revenue Allocation Policy); 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).

Our adoption of the standard BBM will mean that revenue is reviewed 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 to an approach to determining service prices where forecast revenue and costs are used at the beginning of the relevant financial year (known as an *ex ante* approach). We are seeking stakeholder feedback on how to treat under and over-recoveries which are greater than a proposed materiality threshold. We have put forward two options for consultation feedback.

Q: Why is ASX proposing to use the BBM?

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

Q: How will ASX ensure that it continues to prudently manage its costs for providing CS services?

A: As a commercial organisation, ASX is naturally driven to adopt 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.

Q: Is ASX trying to recover previous costs related to the CHES Replacement Project?

A: The Policy will not recover previous write-offs related to the first iteration of the CHES Replacement Project or recover any previous or future payments under the CHES Replacement Partnership Program.

Q: Will this lead to an increase in prices for CS services?

A: We are only proposing to review the CS services fee schedules if the under or over-recovery amount in a single financial year is greater than 5% relative to the revenue requirement, or if cumulative financial years of under or over-recovery result in a total under or over-recovery of more than 5% relative to the most recent revenue requirement. The occurrence of either or both of these 'fees review triggers' would require us to conduct a review of the appropriateness of our cash equity services fees and whether they should be adjusted.

Our aim is to ensure, over time, that the actual revenue received each year closely matches the target cost recovery revenue requirement. Any proposed adjustments to those fees resulting from the review would be the subject of market consultation. The Policy will also not result in changes to the cash equity services fee schedules until the end of FY 2025 at the earliest, with any fee adjustments beyond that date to be the product of the outcomes of both a fees review and prior consultation with users.

Q: How will ASX ensure that its CS services prices remain appropriate over time?

A: The appropriateness of our cash equity services pricing depends in part on the outcome of the annual review to determine how closely the actual revenue received each year matches the target revenue requirement. Our aim is to ensure, over time, that they closely match. In order to achieve this, we are also seeking feedback on our proposal to implement two triggers which would prompt a review of the cash equity fee schedules.

We also recognise that independent assurance will support the implementation of and confidence in the Policy, including the annual review mechanism and application of the BBM. We note that the draft ASIC CS Services Rules will require ASX to continue to publish audited management accounts for our cash equity CS services, including the ASX Cost and Revenue Allocation Policy ('**Allocation Policy**'). We will engage an independent expert to conduct a review 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 annual internal review and external audit of our governance, pricing and access arrangements benchmarked against the Regulatory Expectations, which have been undertaken since 2014 and, going forward, the annual external audit of compliance with the new ASIC CS Services Rules.

Q: How does this proposal impact current cash equity services fees and rebates?

A: From the commencement date of the new Policy, we will replace the current methodology for cash equity CS services pricing, including the current rebate policy under the Revenue Sharing Scheme ('**Scheme**'). As the new Policy will shift to a cost recovery paradigm and provide for the return of over-recovery amounts to users in a similar manner to the payments under the existing Scheme, we also intend to replace the Scheme with the new Policy upon its commencement. Where applicable, the Scheme payments for the period from 1 July 2024 to 31 December 2024 will still be made.

Q: What are the next steps towards implementation of the Policy?

A: For stakeholders who would like to learn more about the Policy and the stakeholder engagement process, we intend to hold two industry information webinars to walk through the proposed changes contained in this consultation paper in September 2024. 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 by the end of December 2024.