



To the Directors
ASX Settlement Pty Limited and ASX Clear Pty Limited (ASX)

Reasonable assurance report on compliance with the Regulatory Expectations as represented in ASX's Compliance Framework

Independent Assurance Report

Opinion

We have undertaken a reasonable assurance engagement in relation to ASX's compliance, in all material respects, for the period from 12 October 2016 to 30 June 2017, with:

- the Regulatory Expectations for the Conduct of Cash Equity Clearing and Settlement Services in Australia issued by the Council of Financial Regulators (CFR) in October 2016 (the Regulatory Expectations) as represented in ASX's Compliance Framework which comprises the ASX Code of Practice and related policies and procedures listed in Appendix B (together the Compliance Framework).

In our opinion, ASX has complied, in all material respects, with the Regulatory Expectations as represented in the Compliance Framework for the period from 12 October 2016 to 30 June 2017.

Description and findings of the reasonable assurance procedures

Appendix A to this report includes description of the reasonable assurance procedures performed, detailed findings and recommendations from those procedures. Appendix B contains ASX's Compliance Framework and supporting documents.

Basis for Opinion

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* issued by the Auditing and Assurance Standards Board.

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

ASX's Responsibilities

ASX is responsible for:

- a) The compliance activity undertaken to meet the Regulatory Expectations; and
- b) Identification of risks that threaten the compliance with the Regulatory Expectations identified above being met and controls which will mitigate those risks and monitor ongoing compliance.

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Our Independence and Quality Control

We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*, the firm maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Assurance Practitioner's Responsibilities

Our responsibility is to express an opinion on ASX's compliance, in all material respects, with the Regulatory Expectations as represented in the Compliance Framework for the period from 12 October 2016 to 30 June 2017. ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether ASX has complied, in all material respects, with the Regulatory Expectations as represented in the Compliance Framework, for the period from 12 October 2016 to 30 June 2017.

An assurance engagement to report on ASX's compliance with the Regulatory Expectations involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the Regulatory Expectations. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance with the Regulatory Expectations as represented in the Compliance Framework.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the inherent limitations of any internal control structure it is possible that fraud, error, or non-compliance with compliance requirements may occur and not be detected. Additionally, there is a certain level of subjectivity within the subject matter as represented in the Regulatory Expectations. A reasonable assurance engagement throughout the period from 12 October 2016 to 30 June 2017 does not provide assurance on whether compliance with the Regulatory Expectations will continue in the future.

Other procedure - Consultation with Business Committee members

As agreed in our engagement letter signed on 8 August 2017, we have performed consultation with Business Committee members as required by the External audit Terms of Reference. Appendix C to this report provides further information on these other procedures.

Matters relating to the electronic presentation of ASX's Compliance Framework

This assurance report relates to the compliance of ASX with the Regulatory Expectations as represented in ASX's Compliance Framework for the period 12 October 2016 to 30 June 2017 (compliance subject matter). ASX is responsible for their website and its integrity and we do not accept responsibility for any changes that may have occurred to the compliance subject matter information or ASX's Compliance Framework since they were presented on ASX's website as at the date of this report.



We have not been engaged to report on the integrity of this website. The assurance report refers only to ASX's Compliance Framework applicable as at the date of this report. It does not provide an opinion on any other information which may have been hyperlinked to/from ASX's Compliance Framework or to/from ASX's website.

Restricted Use

This report was prepared for use by the Directors of ASX to assist them in addressing the Regulatory Expectations. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Directors of ASX, or for any purpose other than that for which it was prepared.

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A handwritten signature in blue ink, appearing to read 'Matthew Lunn', written over a faint blue line.

Matthew Lunn
Partner

Sydney
13 September 2017

Description and findings of the reasonable assurance procedures

The table below includes a description of the reasonable assurance procedures performed, detailed findings and recommendations from those procedures.

Regulatory Expectation	Procedures	Detailed findings	Recommendations
<p>1.a) ASX should make an explicit public commitment to investing promptly and efficiently in the design, operation and development of the core Clearing and Settlement infrastructure for the Australian cash equity market, including the Clearing House Electronic Sub-register System (CHES) and any future replacement system. This commitment should be supported by governance processes that enable users to provide input on the setting of the investment strategy. Investments should ensure that, to the extent reasonably practicable, the performance, resilience, security and functionality of the core Clearing and Settlement infrastructure meet the needs of users, recognising the diversity and differing needs of users. At a minimum, the core Clearing and Settlement infrastructure should accommodate internationally accepted communication procedures and standards.</p>	<ol style="list-style-type: none"> 1. Examined the Code of Practice published on ASX’s website. 2. Enquired with management about the governance process that allows Business Committee members to provide input into the strategy. Examined the minutes of ASX Clear Pty Limited and ASX Settlement Pty Limited Boards (together ASX Boards). 3. Examined the Business Committee and Technical Committee minutes on a sample basis for the period from 12 October 2016 to 30 June 2017 as published on ASX’s website as well as the latest Business Committee Charter dated May 2017. 4. Examined the ASX’s Replacement of CHES for Equity Post-Trade Services: Business Requirements Consultation Paper dated 10 September 2016 for consideration of performance, resilience, security and functionality of the core Clearing and Settlement infrastructure as well as the related public summary. 5. Examined the June 2017 Business Committee minutes to understand whether internationally accepted communication procedures and standards are being considered within the Clearing and Settlement infrastructure. 	<ol style="list-style-type: none"> 1. The Code of Practice includes an explicit public commitment: “ASX will invest in the ongoing operation and development of the core cash equities clearing and settlement infrastructure promptly and efficiently. Such investments will seek to meet the needs of users, recognising the diversity and differing needs of users.” 2. The governance process includes the Business Committee, the Technical Committee, a number of working groups (currently the six listed below) as well as a number of ad hoc public consultations. Business Committee papers include summaries (including attendees) of the Technical Committee, the public consultations and the working groups. We also observed that the ASX Boards receive a summary of the Business Committee meetings including recommendations made by Business Committee members. The six working groups (the Working Groups) comprise: <ul style="list-style-type: none"> - Account structures and participant models; - Corporate actions; - Transfers, conversion and data migrations; - Settlement enhancements; - Data storage, delivery and reporting ; and - Non-functional requirements. 3. The Business Committee charter outlines the role of the Business Committee and the procedures for sharing agendas, supporting papers and minutes of meetings. Management informed us that the March 2017 Business Committee meeting included a session to allow Business Committee members to provide input into the strategy. This included an agenda item relating to the replacement of CHES (section 4 c). We observed that the length of the meeting was extended from one and a half to four hours which we understand was to allow sufficient time for this particular agenda item. We also noted in the minutes a summary of the discussion held on this agenda item during this meeting. 	<p>Not applicable.</p>

Regulatory Expectation	Procedures	Detailed findings	Recommendations
		<p>4. The non-confidential submissions from Clearing and Settlement participants and a combined summary of their responses are published on ASX's website in the CHES Replacement – Public Consultation Feedback Summary. The guiding principles in the Consultation Paper include "Accessibility; Ease of integration and global interoperability; Availability, reliability and performance; Privacy and security; and Operational efficiencies."</p> <p>5. The “user engagement plan” covers the replacement of CHES and implementation of Distributed Ledger Technology (DLT)/Blockchain, as well as ISO 20022 Financial Services - universal financial industry message scheme Technical Committee meetings. We understand the introduction of ISO 20022 is a long term strategic initiative to adopt internationally accepted communication procedures and standards.</p>	
<p>1.b) ASX should ensure that the membership of its user governance arrangements is representative of the user base of its Clearing and Settlement services, and that members are able to have strong input into the agenda and format of meetings or other user governance mechanisms and the setting of priorities</p>	<p>1. Examined the composition of the Business Committee on ASX’s website. Obtained ASX’s Clearing and Settlement customer list and compared it against the Business Committee members’ composition to identify how ASX considers different users’ needs.</p> <p>2. Enquired about ASX’s procedure to review the Business Committee composition on a periodic basis.</p> <p>3. Obtained and Examined on a sample basis the emails sent to Business Committee members with agenda, supporting papers and minutes of Business Committee meetings.</p>	<p>1. The Business Committee comprises 24 members, including clearing participants, settlement participants, three other market operators and independent associations such as the Australian Financial Markets Association (AFMA) and Stockbrokers and Financial Advisers Association (SAFAA). Participants include large institutional brokers and smaller retail brokers.</p> <p>2. We understand from management that the Business Committee composition is reviewed on an annual basis to ensure it is representative of ASX’s users’ base. The latest change was the addition of the Chief Executive Officer of AFMA as from the March 2017 Business Committee meeting.</p> <p>3. For the sample selected, Business Committee meeting agendas and associated papers were sent to Business Committee members on average one month and one week respectively before the Business Committee meeting dates which is consistent with the Business Committee Charter. We understand per discussion with management that the Business Committee members can use this notice period to provide input into the agenda</p> <p>The draft minutes are circulated by emails to the Business Committee members for their review and comment.</p> <p>The agendas we examined included a standing item for discussion of previous meetings' minutes with Business Committee members.</p> <p>Through discussion with ASX management we understand that users are able to provide input into the priorities through the</p>	<p>We understand that there is currently no documentation on the procedure in place to review and approve the composition of the Business Committee. We recommend management documents this procedure.</p>

Regulatory Expectation	Procedures	Detailed findings	Recommendations
		<p>Business Committee, Technical Committee, Working Groups and public consultations as described in observation 2 and 4 under section 1a). In addition, we understand the Working Groups' objective is to obtain input on the business requirements for the replacement of CHESSE from customers and other relevant stakeholders.</p> <p>The Working Groups are focused on identifying and defining opportunities for improvements to post-trade processes and services, which could potentially be addressed through the replacement of CHESSE. The input from the Working Groups on the business requirements also includes industry prioritisation of specific business requirements for the scope of "day 1" implementation of the system that replaces CHESSE. A summary of the outcome of those Working Groups was included in the minutes of the Business Committee meetings we examined.</p> <p>The Business Committee papers we examined also included a forward work program, mostly focussed on CHESSE replacement and a statement to invite Business Committee members to bring forward any other clearing and settlement matters that the Business Committee should consider.</p>	
<p>1.c) ASX should demonstrate that it has had regard to the views of members in setting the terms of reference for the external audits of its governance, pricing and access arrangements carried out in accordance with the Regulatory Expectations. This may take the form of members' non-objection of the proposed terms of reference. These terms of reference may change following any review of the Regulatory Expectations.</p>	<ol style="list-style-type: none"> 1. Examined the Terms of Reference and the Business Committee minutes dated 4 May 2017. 2. Examined the email communications between ASX and the CFR in relation to the Terms of Reference. 	<ol style="list-style-type: none"> 1. The Regulatory Expectations External Audit Terms of Reference were presented in draft to the Business Committee for their review during the May 2017 Business Committee meeting and were included in the Business Committee papers sent to members ahead of the meeting. We noted in section 4b) of the minutes that the Chair of the Business Committee asked for comments on the Terms of Reference and that no comments were provided by the Business Committee. 2. ASX obtained feedback in an email dated 31 May 2017 from the CFR (through ASIC) on the scope of the engagement. This feedback did not include any request for modification of the Terms of Reference. 	<p>Not applicable.</p>

Regulatory Expectation	Procedures	Detailed findings	Recommendations
<p>1.d) ASX should maintain accountability arrangements that provide for regular public attestations as to the effectiveness of its interactions with users. For example, the following arrangements would be appropriate:</p> <p>i) ASX's user governance mechanisms operate on a 'comply or explain' basis; that is, the relevant Board would take actions in accordance with recommendations from the user governance mechanisms, or else explain why such actions had not been taken.</p> <p>ii) ASX report, on at least an annual basis, the service developments and investment projects that it has progressed and how it has taken into consideration the views of users.</p>	<ol style="list-style-type: none"> Examined a sample of Business Committee member recommendations from Business Committee meeting minutes and assessed if they were addressed in subsequent Business Committee meeting minutes. Enquired with management on the progress of the report in relation to the service developments and investment projects and examined the August 2017 Business Committee agenda and papers. 	<ol style="list-style-type: none"> We noted through examination of the Business Committee minutes that users provided recommendations to which the ASX Boards have responded in writing in subsequent Business Committee papers. Those responses were made on a "comply or explain basis". Based on discussion with management, we understand that the annual report on service developments and investment projects will be presented to the Business Committee in October 2017 and management is not aware of any issues as at the date of this report. One of the items in the work forward plan included in the August Business Committee papers relates to the presentation of the "Annual Report on investments & service enhancements" to the Business Committee in October 2017. 	<p>Not applicable.</p>
<p>1.e) ASX should formally commit to retaining a Board structure for ASX Clear and ASX Settlement that comprises a minimum of 50 per cent of non-executive directors that are also independent of ASX Limited, and where a subset of these independent directors can form a quorum.</p>	<ol style="list-style-type: none"> Examined the Code of Practice. Examined the composition and resumes of ASX Limited, ASX Clear Pty Limited and ASX Settlement Pty Limited Directors as published on ASX's website. Examined ASX's November 2016 Board Charter as published on ASX's website. Examined a sample of ASX's Boards meeting minutes. 	<ol style="list-style-type: none"> The Code of Practice includes an explicit public commitment to retain a Board structure for ASX Clear Pty Limited and ASX Settlement Pty Limited with a minimum of 50 per cent of non-executive directors that are also not Directors of ASX Limited. The Code of Practice also provides that ASX ensures non-executive directors can form a quorum to be able to consider competitive sensitive information provided by another market operator. Three out of the six Directors on the ASX Clear Pty Limited and ASX Settlement Pty Limited Boards are non-executive directors that are also not Directors of ASX Limited's Board. We understand from management that any change in Board member is subject to ASIC's approval. We noted no change in the composition of the Boards for the period under review. ASX's Directors discuss at each Board meeting individual Directors' interest and potential conflicts. <p>The ASX Boards Charter was circulated and discussed during the November 2016 ASX Boards' meeting.</p>	<p>Not applicable.</p>

Regulatory Expectation	Procedures	Detailed findings	Recommendations
<p>1.f) ASX should establish governance structures and reporting lines at the management and operational levels that promote access to its Clearing and Settlement services on commercial, transparent and non-discriminatory terms. These arrangements should ensure that the interests of users are upheld in accordance with Regulatory Expectation 3. This may be demonstrated, for example, through the key performance indicators set for relevant management.</p>	<ol style="list-style-type: none"> 1. Enquired about ASX's governance and reporting lines for Clearing and Settlement services. 2. Enquired with management and Examined a sample of ASX's senior executives' Key Performance Indicators (KPIs) and a sample of their team's KPIs. 	<ol style="list-style-type: none"> 1. ASX senior management have direct reporting lines which are segregated based on their functions. In particular, business (Line 1) and compliance (Line 2) report to different executive personnel. ASX's Line 2 have produced an informal mapping document to assist us in our assurance engagement. This document reconciles the Regulatory Expectations with ASX's Code of Practice, policies, procedures and controls. Each Regulatory Expectation has been mapped with the relevant requirement of the Code of Practice, ASX's controls, a conclusion on compliance with each Regulatory Expectation and a reference to supporting evidence. ASX has concluded that it complies with all Regulatory Expectations. 2. Examined the KPIs for a sample of senior executives and noted that these include a KPI relating to the provision of access to ASX Clearing and Settlement services on commercial, transparent and non-discriminatory terms as per the regulatory expectations. The KPIs also include objectives to provide access to specific Clearing and Settlement users, e.g. Approved Listing Market Operators (ALMOs), Approved Market Operators (AMOs) and other Clearing and Settlement participants. 	<p>We recommend that the Line 1 team owns the Regulatory Expectations internal mapping document and develops it into a formal, comprehensive document. This should be subject to independent review and challenge by the Line 2 compliance team. Further, the outcome of these reviews should be reported to the Audit and Risk Committee.</p>
<p>2.a) ASX should ensure that all prices of individually unbundled Clearing and Settlement services, including rebates, revenue-sharing arrangements and discounts applicable to the use of these services:</p> <ol style="list-style-type: none"> i) are transparent to all users of the services ii) do not discriminate in favour of ASX-affiliated entities, except to the extent that the efficient cost of providing the same service to another party was higher iii) are made available to stakeholders in a form such that the impact of pricing changes can be readily understood. 	<ol style="list-style-type: none"> 1. Examined the Clearing, Settlement and Issuer Administration Service Schedule of Fees dated 1 July 2016, 17 October 2016 and 1 December 2016. 2. Selected a sample of ASX invoices issued to various users to test whether Clearing and Settlement prices charged are in accordance with prices published on ASX's website for the period 12 October 2016 to 30 June 2017. 	<ol style="list-style-type: none"> 1. ASX prices are transparent as they are published on its website. The detail of the fees for ASX services is also included in the invoices sent. There has not been any price change during the period from 12 October 2016 to 30 June 2017. The previous price change related to a 10% reduction on the transaction clearing fee for equities effective 1 July 2016. 2. The prices for the Clearing and Settlement services as included in the sample of invoices tested were consistent with the prices published on ASX's website Clearing, Settlement and Issuer Administration Service Schedule of Fees effective from 12 October 2016 to 30 June 2017. 	<p>Not applicable.</p>

Regulatory Expectation	Procedures	Detailed findings	Recommendations
<p>2.b) ASX should maintain an appropriate method for determining the prices of its 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.</p>	<ol style="list-style-type: none"> 1. Examined the Enterprise Wide Pricing Framework to ensure that it includes documentation on the method for determining the prices of its Clearing and Settlement services. 2. Examined the 2016 and 2017 cash market clearing and settlement management income statement audit reports to inspect whether these are unqualified. 3. Examined the 2014 independent benchmarking report and the April 2016 note issued by Oxera on ASX Clearing and Settlement Services' costs. 	<ol style="list-style-type: none"> 1. ASX's method to determine the prices of its Clearing and Settlement services is documented in its Enterprise Wide Pricing Framework. This framework was recently updated following a review by ASX executive management and internal audit in January 2017. 2. ASX cash market clearing and settlement management income statement is subject to an annual external audit under Australian Auditing Standards. PwC issued unqualified audit reports for the cash market clearing and settlement management income statement for the years ended 30 June 2016 and 30 June 2017. The notes to these audited reports include ASX methodology for the internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia. 3. In 2014 ASX commissioned Oxera, an independent economics consultancy firm, to benchmark ASX Clearing and Settlement services' costs against the costs of using the services provided by financial market infrastructure providers in other countries. The overall conclusion was that "when taking into account the scale of trading, the costs of post-trading services in Australia are in line with the costs of similar services provided in financial centres of a comparable size." In 2016, ASX commissioned Oxera to review the prevailing price schedules for the financial market infrastructures included in the 2014 analysis to assess whether post-trading fees had changed, and whether the conclusion from the 2014 analysis would still hold based on the current pricing schedules. The April 2016 Oxera note concluded that, overall, ASX's clearing fees remain in line with those central counterparty clearing houses operating at a comparable scale. In relation to settlement costs, the 2016 note indicated that pricing changes in other markets were less prevalent and were limited to fee increases by three settlement facilities. The note also stated that ASX has not increased its clearing or settlement fees since the 2014 analysis. 	<p>Not applicable.</p>

Regulatory Expectation	Procedures	Detailed findings	Recommendations
<p>2.c) ASX should make an explicit public commitment that any changes in the prices of its Clearing and Settlement services will not be implemented in a way that would materially shift revenue streams between aspects of its trading, clearing and settlement services.</p>	<ol style="list-style-type: none"> 1. Examined the Code of Practice published on ASX’s website. 2. Examined the listing of Clearing and Settlement prices effective from October 2016 to June 2017. 3. Examined the 2016 and 2017 cash market clearing and settlement management income statement audit reports to inspect whether these are unqualified. 	<ol style="list-style-type: none"> 1. The Code of Practice includes an explicit public commitment that “ASX Clear and ASX Settlement will not implement price changes with the purpose of materially shifting revenue streams between other trading, clearing and settlement services.” 2. There were no changes to Clearing and Settlement prices during the period from 12 October 2016 to 30 June 2017. 3. Refer to section 2.b) above for the results of PwC's audits of the cash market clearing and settlement management income statement. 	<p>Not applicable.</p>
<p>2.d) ASX should publish any increases in its Clearing and Settlement fee schedules along with an attestation justifying their reasonableness. For the most material such increases, this attestation would be expected to refer to relevant metrics and other evidence, such as the calculated return on equity, benchmarked price lists, or an independent review of how ASX’s cash equity Clearing and Settlement fees compare with those of Clearing and Settlement facilities in other markets.</p>	<ol style="list-style-type: none"> 1. Examined the listing of Clearing and Settlement prices effective from October 2016 to June 2017. 	<ol style="list-style-type: none"> 1. There were no changes to Clearing and Settlement prices during the period from 12 October 2016 to 30 June 2017. 	<p>Not applicable.</p>

Regulatory Expectation	Procedures	Detailed findings	Recommendations
<p>2.e) ASX should 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. Compliance with the model and policies would be expected to be subject to internal audit review. The model and policies should be based on reasonable cost allocation principles. For example:</p> <ul style="list-style-type: none"> i) where possible, costs should be directly allocated to the service(s) which give rise to those costs ii) shared costs should be allocated based on appropriate and transparent metrics. 	<ol style="list-style-type: none"> 1. Examined ASX’s internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia. 2. Examined the 2016 and 2017 cash market clearing and settlement management income statement audit reports to inspect whether these are unqualified. 3. Examined email correspondence between ASX and ASIC in relation to the requirement for an internal audit of the internal allocation cost. 	<ol style="list-style-type: none"> 1. ASX’s internal cost allocation and transfer pricing policy is published on ASX’s website and includes ASX’s internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia. 2. Refer to section 2.b) above for the results of PwC's audit of the cash market clearing and settlement management income statement. 3. ASIC confirmed in writing on behalf of the CFR that the audit requirement of section 2.e) is satisfied by the external audit of management income statements performed by PwC. 	<p>Not applicable.</p>
<p>2.f) ASX should negotiate commercially and in good faith with unaffiliated market operators and Clearing and Settlement facilities regarding fees and other financial contributions charged for any extensions to its monopoly Clearing and Settlement services, and in particular those provided under the existing Trade Acceptance Service and the Settlement Facilitation Service.</p>	<ol style="list-style-type: none"> 1. Enquired with management about extensions to existing services entered into during the period from 12 October 2016 to 30 June 2017. 	<ol style="list-style-type: none"> 1. We understand from management that there was no extension to existing services and accordingly no such fee negotiation occurred during the period under review. The ASX schedule of fees, as referenced under section 2a), is included on ASX’s website and includes prices for all Clearing and Settlement services, including those rendered to AMOs and ALMOs. 	<p>Not applicable.</p>

Regulatory Expectation	Procedures	Detailed findings	Recommendations
<p>3.a) ASX should have objectives for its Clearing and Settlement services that include an explicit public overarching commitment to supporting access to its Clearing and Settlement services on commercial, transparent and non-discriminatory terms. ASX should maintain standard user terms and conditions that are consistent with these objectives, taking into account the legitimate business interests of ASX and any parties seeking access to its Clearing and Settlement services.</p>	<ol style="list-style-type: none"> 1. Examined the Code of Practice as published on ASX’s website. 2. Examined ASX's Trade Acceptance Service (TAS) and Settlement Facilitation Service (SFS) terms and conditions as published on ASX’s website. 3. Examined ASX's Operating Rules as published on ASX’s website as well as the internal procedure for amending Operating Rules. 	<ol style="list-style-type: none"> 1. The Code of Practice includes the following commitment: “ASX is committed to providing access to clearing and settlement services on transparent and non-discriminatory terms, and will respond to requests for access in a fair and timely manner.” 2. TAS and SFS agreements contain standards user terms and conditions that provide for ASX to grant non-discriminatory access to its clearing and settlement services: <ol style="list-style-type: none"> i) of comparable quality to the services provided to ASX ii) in accordance with applicable laws, rules and procedures iii) without discriminating in relation to clearing and settlement participants on the basis of where the trade was effected or reported 3. ASX Operating rules incorporate the standard terms and conditions applicable to all users of ASX’s Clearing and Settlement Services. ASX’s internal procedure for amending operating Rules include a requirement to consult with ASIC prior to any change. 	<p>Not applicable.</p>
<p>3.b) Service level agreements should commit ASX to providing access to its Clearing and Settlement services for unaffiliated market operators and Clearing and Settlement facilities on operational and commercial terms and service levels that are materially equivalent to those that apply to ASX as a market operator or Clearing and Settlement facility.</p>	<ol style="list-style-type: none"> 1. Examined ASX's TAS and SFS terms and conditions as published on ASX’s website and listed in section 3a). 	<ol style="list-style-type: none"> 1. TAS and SFS agreements contain standards user terms and conditions that provide for ASX to grant non-discriminatory access to its clearing and settlement services: <ol style="list-style-type: none"> i) of comparable quality to the services provided to ASX ii) in accordance with applicable laws, rules and procedures iii) without discriminating in relation to clearing and settlement participants on the basis of where the trade was effected or reported. 	<p>Not applicable.</p>

Regulatory Expectation	Procedures	Detailed findings	Recommendations
<p>3.c) ASX should publish and adhere to protocols for dealing fairly and in a timely manner with requests for access. These protocols should include reasonable timeframes for responding to enquiries and arrangements for dealing with disputes. Nothing in the protocols should affect either party's right to refer a dispute to arbitration by the ACCC (Australian Competition and Consumer Commission) once the arbitration regime is implemented.</p>	<ol style="list-style-type: none"> 1. Examined ASX's Operating Rules, TAS and SFS terms and conditions as published on ASX's website and listed in section 3a). 2. Examined TAS and SFS agreement as published on ASX's website to assess whether the template includes a protocol for dealing with disputes. 3. Examined AMO and ALMO access request procedures as published on ASX's website. 4. Examined ASX Cash Equities Clearing and Settlement Code of Practice - Access Protocols as published on ASX's website. 	<ol style="list-style-type: none"> 1. Refer to section 3a) above for review of the standards user terms and conditions that provide for ASX to grant non-discriminatory access to its clearing and settlement services. 2. Clause 43 of the Trade Acceptance Service Legal Terms and Clause 13 of the Settlement Facilitation Service Agreement sets out dispute resolution processes. 3. Individual access request procedure documents for AMOs and ALMOs set out target timeframes for ASX to respond to access requests from AMOs and ALMOs. 4. ASX Cash Equities Clearing and Settlement Code of Practice - Access Protocols include target timeframes for dealing with access requests as well as dispute resolution arrangements. 	<p>Not applicable.</p>

Regulatory Expectation	Procedures	Detailed findings	Recommendations
<p>3.d) ASX should make an explicit commitment to ensuring that any investments in the systems and technology that support its cash equity Clearing and Settlement services do not raise barriers to access from unaffiliated market operators or Clearing and Settlement facilities. Announcements of any material investments in the systems and technology that support ASX's cash equity Clearing and Settlement services should be accompanied by a public attestation that those investments will be designed in a way that does not raise such barriers.</p>	<ol style="list-style-type: none"> 1. Examined the Code of Practice as published on ASX's website. 2. Enquired with management about material investments in the systems and technology that support ASX's cash equity Clearing and Settlement services. 3. Examined September 2016 Consultation Paper ASX's Replacement of CHES for Equity Post-Trade Services: Business Requirements. 	<ol style="list-style-type: none"> 1. The Code of Practice includes commitment by ASX to "ensuring its investments in the systems and technology that support its cash equities clearing and settlement infrastructure are not designed in such a way as to raise barriers to access to other market operators or clearing facilities". 2. We understand from management that ASX has not made any announcements of material investments in the systems and technology that support ASX's cash equity Clearing and Settlement services. However, in the September 2016 CHES Replacement Consultation Paper, ASX indicated that the system that replaces CHES will provide all market operators (including ASX-affiliated and non-affiliated) with non-discriminatory access to clearing and settlement services. The Consultation Paper also indicated that the system that replaces CHES will be configurable to provide a second licenced central counterparty with non-discriminatory access to settlement services. 3. The September 2016 Consultation Paper states that the system that replaces CHES will provide "issuers and end investors with greater control over, and enhanced confidence in, their market activities through timely, secure and simplified access to the register of holders (for issuers), financial assets (end investors) and associated information." It also states that accessibility will be "readily available to those who are authorised to use it in a non-discriminatory manner." 	<p>Not applicable.</p>

Regulatory Expectation	Procedures	Detailed findings	Recommendations
<p>3.e) ASX should retain, and periodically review, its standards for the handling of sensitive or confidential information. Consistent with governance arrangements that promote access on commercial, transparent and non-discriminatory terms (see Regulatory Expectation 1(e)), these arrangements should ensure that conflict sensitive information pertaining to the strategic plans of unaffiliated market operators or Clearing and Settlement facilities is handled sensitively and confidentially, and cannot be used to advance the interests of ASX as a market operator or Clearing and Settlement facility.</p>	<ol style="list-style-type: none"> 1. Reviewed the Conflict Handling Arrangements policy dated March 2016 published on ASX’s website. 2. Reviewed the Information Handling Standard published on ASX’s website. 3. Reviewed ASX’s Regulatory Assurance Line 2 team’s review of Conflicts Handling arrangements. 4. Reviewed the complaints register regarding handling of information and determine if there were any complaints raised in relation to confidentiality and sensitive information. 	<ol style="list-style-type: none"> 1. The Conflicts Handling Arrangements policy includes a specific paragraph on cash equity Clearing and Settlement services, which references Information Handling Standards in place to manage commercially sensitive information provided to ASX by other licensed listing and trading venues. 2. ASX’s Information Handling Standard provides for <ol style="list-style-type: none"> i) protection of AMO’s confidential and sensitive information. ii) access to sensitive information is restricted to appropriate ASX Employees. 3. ASX’s Regulatory Assurance performed a review of the Conflicts Handling arrangement in the first quarter of 2017 covering the period from 1 July to 31 December 2016. We noted that the conclusion of the review was satisfactory. 4. No complaints were noted that relate to the handling of sensitive or confidential information. 	<p>Not applicable.</p>

ASX's Compliance Framework and supporting documents

The table below includes the policies, procedures and other documents which we referred to within our report that form part of the Compliance Framework.

Compliance framework supporting document	Date	Hyperlink to ASX website
Regulatory Expectations	October 2016	https://www.cfr.gov.au/publications/cfr-publications/2016/regulatory-expectations-policy-statement/pdf/policy-statement.pdf
Code of Practice	October 2016 May 2017	Not on ASX's website http://www.asx.com.au/cs/documents/asx-code-of-practice.pdf
Business Committee Meetings - agendas, papers, minutes and Business Committee reports to the ASX Boards	Various version dates as applicable as at the date of this report	http://www.asx.com.au/cs/business-committee-meetings.htm
Clearing and Settlement Boards Charter	November 2016	http://www.asx.com.au/documents/asx-compliance/CS-Board-Charter.pdf
Business Committee Charter	May 2017	Not on ASX's website
Business Committee Role and Membership details	As applicable as at the date of this report	http://www.asx.com.au/cs/business-committee.htm
ASX Clearing and Settlement Boards Charter	November 2016	http://www.asx.com.au/documents/asx-compliance/CS-Board-Charter.pdf
ASX Boards' members details	As applicable as at the date of this report	http://www.asx.com.au/about/asx-clearing-settlement-boards.htm
2014 Oxera report: 'Global cost benchmarking of cash equity clearing and settlement services'	June 2014	http://www.asx.com.au/cs/documents/Global_cost_benchmarking_of_cash_equity_clearing_settlement_services_Final_20Jun14.pdf
2016 Oxera report: 'Global cost benchmarking: review of price lists'	April 2016	Not on ASX's website
Audited 'Cash Market Clearing and Settlement management income statement' - 2017	30 June 2017	Not on ASX's website
ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia	As applicable as at the date of this report	http://www.asx.com.au/cs/documents/cost_allocation_policy.pdf
Audited 'Cash Market Clearing management income statement' - 2016	30 June 2016	http://www.asx.com.au/cs/documents/Management-Accounts-for-Cash-Equities-Clearing-FY16.pdf
Audited 'Cash Market Settlement management income statement' - 2016	30 June 2016	http://www.asx.com.au/cs/documents/Management-Accounts-for-Cash-Equities-Settlement-FY16.pdf

Compliance framework supporting document	Date	Hyperlink to ASX website
Enterprise Wide Pricing Framework	January 2017	Not on ASX's website
ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia	As applicable as at the date of this report	http://www.asx.com.au/cs/documents/cost_allocation_policy.pdf
Clearing, Settlement and Issuer Administration Services Schedule of Fees	July 2016 October 2016 December 2016	Not on ASX's website for July 2016 http://www.asx.com.au/cs/documents/Clearing-Settlement-and-Issuer-Administration-Services-Schedule-of-Fees-effective-17October2016.pdf https://www.asxonline.com/content/dam/asxonline/public/documents/schedule-of-fees/clearing-settlement-and-issuer-administration-services-schedule-of-fees-effective-1-Dec-2016.pdf
Consultation Paper 'ASX's Replacement of CHESS for Equity Post-Trade Services: Business Requirements'	September 2016	http://www.asx.com.au/documents/public-consultations/ASX-Consultation-Paper-CHESS-Replacement-19-September-2016.pdf
CHESS replacement - Public Consultation Feedback Summary	March 2017	http://www.asx.com.au/documents/public-consultations/CHESS-Replacement-Consultation-Response.pdf
ASX Trade Acceptance Service (TAS) – Review of Legal Terms	February 2016	http://www.asx.com.au/documents/public-consultations/Review_of_TAS_Legal_Terms.pdf
Settlement Facilitation Service (SFS) Agreement	March 2014	http://www.asx.com.au/documents/settlement/Settlement_Facilitation_Service_Agreement_Template.pdf
ASX Cash Equities Clearing and Settlement Code of Practice - Access Protocols	2017	http://www.asx.com.au/cs/documents/COP-Access-Protocols-1-7-17.pdf
Procedures for Access Requests by Approved Market Operators (AMOs)	2017	http://www.asx.com.au/cs/documents/AMO-Procedures-for-Access-Requests.pdf
Procedures for Access Requests by Approved Listing Market Operators (ALMOs)	2017	http://www.asx.com.au/cs/documents/almo-procedures-for-access-requests.pdf
ASX's Conflict Handling Arrangements	March 2016	http://www.asx.com.au/documents/asx-compliance/asx_conflict_handling_arrangements.pdf
Information Handling Standard	14 June 2011	http://www.asx.com.au/documents/professionals/tas_information_handling_standard_20110614.pdf

Consultation with Business Committee members

Background

The External audit Terms of Reference as presented to the Business Committee in the May 2017 meeting requires the auditor to consult “with members of the Business Committee and other relevant user governance arrangements on the design and operating effectiveness of the policies and procedures”. To that effect, we sent a questionnaire to all 23 Business Committee members, seeking feedback on the compliance of ASX with the Regulatory Expectations. We received nine responses and in three instances confidentiality was requested by the respondent.

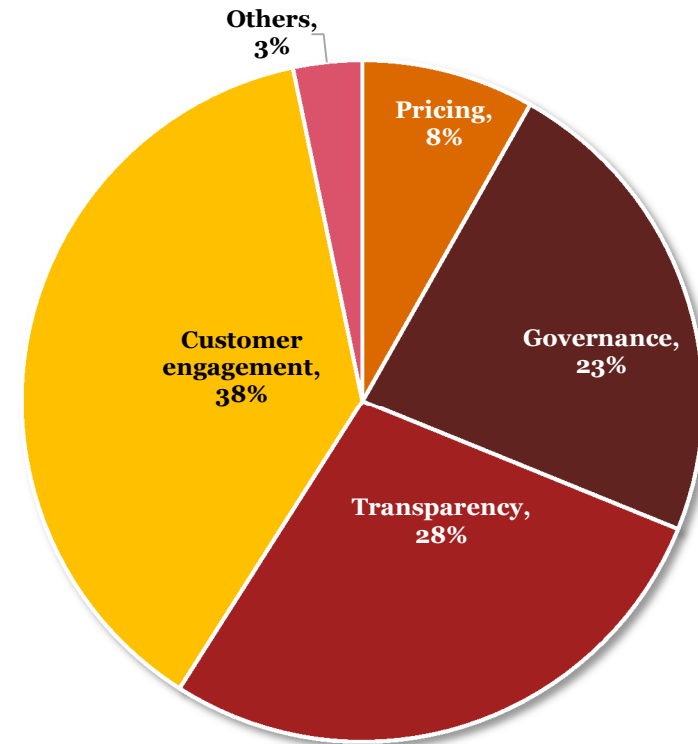
We note that the participants who responded to this survey also took this opportunity to include other observations in addition to matters related to the compliance with the Regulatory Expectations. Where the Business Committee member comments directly related to compliance with the Regulatory Expectations, we designed procedures, as detailed in Appendix A, for us to obtain sufficient appropriate evidence about the compliance of ASX with the Regulatory Expectations. We have not performed testing in relation to the responses which were not directly related to compliance with Regulatory Expectations. All responses have been provided to ASX, unless confidentiality was requested by the respondent.

Chart 1 summarises the Business Committee member responses into key themes.


We have provided below a **summary of the topics raised in the Business Committee members’ responses by key theme**, including topics that are specific to the Regulatory Expectations as well as other topics. This includes both strengths and opportunities for improvement. In certain instances perceived strengths noted by one respondent conflict with feedback received from another member. We have not provided the full detail of Business Committee member comments given these reflect individual views of each of the nine Business Committee members who responded to the questionnaire.

We will separately provide ASX with our consideration of the feedback provided by the Business Committee members. This has not been included in this report as it is not directly linked with ASX's compliance with the Regulatory Expectations.

Chart 1 - Key Themes - Business Committee member responses



Summary of the topics raised in the Business Committee members' responses by key theme

Governance	
	<ul style="list-style-type: none"> • Business Committee input into strategy and the development of Clearing and Settlement services • Two way communication between ASX Boards and the Business Committee
Pricing	
	<ul style="list-style-type: none"> • Transparency in method of determination of pricing
Transparency	
	<ul style="list-style-type: none"> • Matters discussed at Working Groups • Due diligence and selection process in relation to the system that replaces CHES • Process to monitor independence of ASX Boards members • Policies and procedures over complaints handling process
Customer engagement	
	<ul style="list-style-type: none"> • Structure of Business Committee meetings • Representation of relevant Business Committee members at Working Groups • Opportunity for Business Committee members to express their views and provide feedback • Opportunity to discuss the development of ASX clearing and settlement services • Timeliness of the distribution of Business Committee materials
Others	
	<ul style="list-style-type: none"> • Timeliness of responses to requests relating to access to cash market clearing and settlement services • Quality of customer service standards • Opportunity for one-on-one consultation with Business Committee members