



BUSINESS COMMITTEE REPORT TO THE FORUM

From the 7 May 2014 Business Committee meeting

At its 7 May 2014 meeting, the Business Committee was updated on progress in the international cost benchmarking analysis, the consultation feedback received in relation to transitioning to a T+2 settlement cycle for cash equities and the risk management framework for cash market transactions cleared through the central counterparty (ASX Clear). The Business Committee was invited to provide feedback on the target implementation date for the introduction of a T+2 settlement cycle, early considerations of a principal to principal clearing participant model, and the appropriate approach to the second phase of corporate actions straight through processing.

Key Recommendations

The Business Committee recommended:

- a Q1 2016 (CY) implementation date for the introduction of a T+2 settlement cycle for cash equities should be targeted;
- the batch settlement cut-off should be changed to a time no later than noon to support the introduction of a T+2 settlement cycle;
- that further consideration should be given to the issues concerning the 'look through' of regulatory obligations relating to retail clients to the clearing participant and a potential principal to principal clearing participant model should be examined. The initial focus should be obtaining clarity on the regulatory obligations (across the Corporations Act, the Market Integrity Rules and ASX's Operating Rules) relating to the end customer, in particular retail clients, which apply to the trading participant, clearing participant and settlement participant; and
- that the second phase of corporate actions straight through processing initiative should focus on corporate actions types with higher volumes and where it is feasible to do end-to-end straight through processing.

Key Issues Discussed

- The widespread industry support for the introduction of a T+2 settlement cycle for cash equities and the balance to be struck in pushing back the batch settlement cut-off time to support the introduction of a shorter settlement cycle such that it minimised the resultant delay in daily post settlement processes.
- The importance of progressing the second phase of corporate actions straight through processing in the near to medium term to ensure the momentum of moving to straight through processing is maintained.
- An outline of a simplified principal to principal clearing participant model and the key issues for consideration, including the potential benefits and the significant regulatory challenges to implement any such model.

Agreed Actions

1. ASX to continue to engage with ETF issuers and further consider the appropriate response to the potential for increased failed settlements in the context of ETFs and the mismatch in the settlement period with the underlying which remains on a T+3 settlement cycle (i.e. fixed income securities).
2. ASX to provide the Business Committee a roadmap for cash market clearing and settlement services at its 27 August 2014 meeting which incorporates, among other things, the introduction of a T+2 settlement cycle, proposed implementation of measures to enhance flexibility in clearing participant structures and CHES replacement.
3. ASX to update the Committee at its 27 August 2014 meeting on its proposed approach to obtaining clarity of the regulatory obligations relating to retail clients that apply to the clearing participant and consideration of a potential principal to principal clearing participant model.
4. ASX to include a roadmap for the second phase of the corporate actions straight through processing initiative in the forward work program.
5. ASX to update the Committee on the outsourcing Guidance Note at its 27 August 2014 meeting.