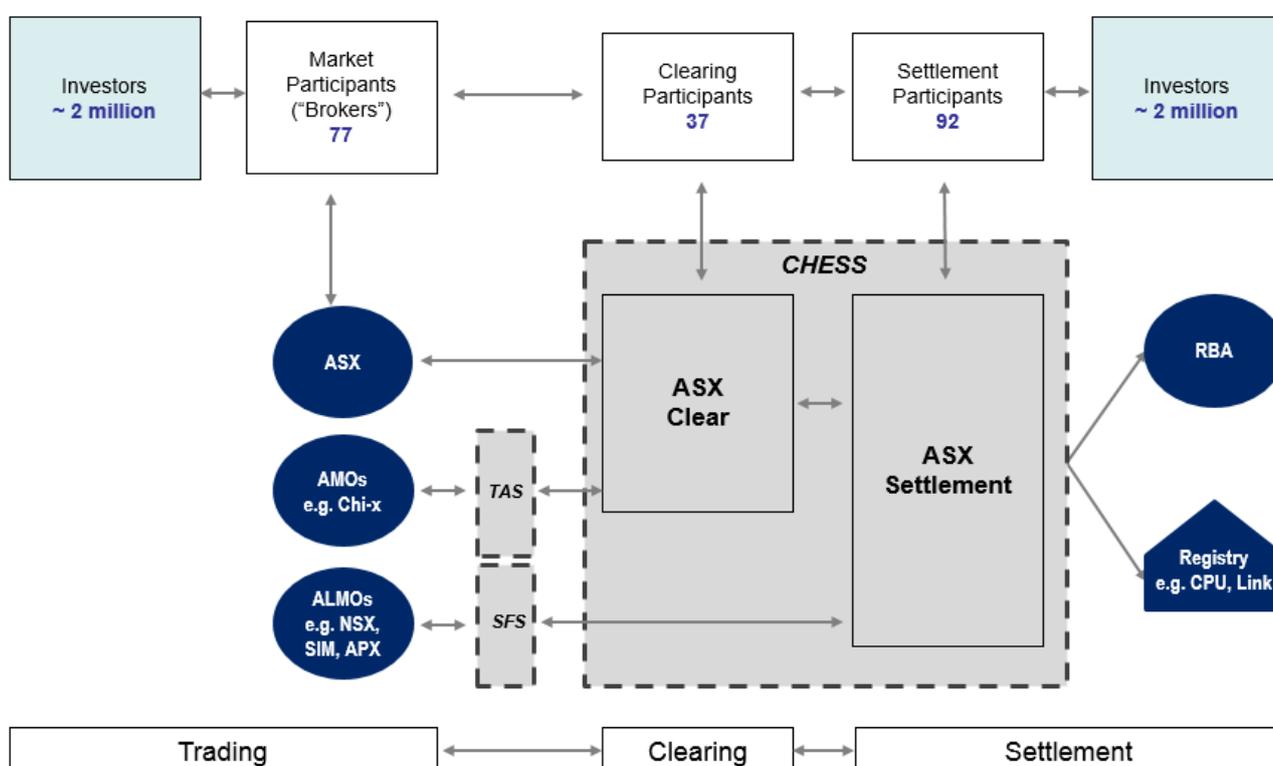


# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 2

<b>Topic</b>	<b>Report on the operational performance of cash market clearing and settlement services</b>
<b>Date of the Meeting</b>	27 August 2015
<b>Purpose of this paper</b>	To report on key performance metrics for ASX's clearing and settlement services.
<b>Action required</b>	To note the agenda paper.

## BACKGROUND



The clearing and settlement of equities performs a critical role in the operation of Australia's financial markets, helping to reduce counterparty and systemic risk, and provide transaction efficiency and certainty for end investors.

Core processes that provide these benefits include novation, netting and settlement.

### Novation

Through a contractual process known as novation, ASX Clear becomes the seller to every buyer and the buyer to every seller, making it liable for completing all cleared transactions on the relevant market. Novation is deemed to occur at the point of trade and performs two important functions:

- it replaces the clearing participants' credit exposures to other clearing participants by substituting the clearing house as the central counterparty; and
- it enables the netting of settlement obligations.

Through novation, ASX Clear provides protection to non-defaulting clearing participants (and, indirectly, their clients) from the inability of a defaulting clearing participant to meet its obligations.

A key metric for monitoring novation is the percentage of on and off market trading that is novated.

Prior to novation, CORE (for ASX) and the Trade Acceptance Service (for AMOs – other trade execution venues) perform verification functions for trades submitted to ASX Clear. Following verification trades are registered for clearing. If the verification conditions are not satisfied then trades are rejected and not submitted to CHES. Once a trade is registered it is novated. Novation is deemed to have occurred at the point of trade for all trade execution venues.

## **Netting**

ASX Clear is approved as a 'netting market' for the purposes of the Payment Systems and Netting Act. This enables the netting of settlement obligations in each individual equity, providing greater market efficiency at the time of settlement and reducing participant transaction and funding costs.

A key metric for monitoring netting is the percentage by which novated value is netted down for settlement. This metric is termed "netting efficiency".

## **Settlement**

ASX's model for settlement maximises efficiency, while minimising the risk of settlement failure. It does this by simultaneously transferring the legal ownership of shares and facilitating the transfer of money for those shares. This is done through a Model 3 multilateral net batch settlement mechanism with irrevocable settlement finality at the end of the processing cycle. The transfer of money occurs across the Exchange Settlement Accounts of payment providers in the RBA's Information and Transfer System (RITS).

A key metric for monitoring settlement is the percentage of scheduled settlement that successfully settles (i.e. the opposite of the "fail rate"). This metric is termed "settlement efficiency".

## **Service availability**

ASX's critical processes of novation, netting and settlement and are supported in ASX's core system CHES. It is critical for market operations, that CHES remains stable and available for processing. A key metric for monitoring systems availability is the percentage of systems uptime as measured against target availability times. The service availability target for CHES is 99.80%.

For the June 2015 quarter, the average monthly system availability was 100% for CHES. The average monthly availability of CHES has been 99.99% between November 2011 and June 2015.

## **Trade Acceptance Service**

ASX Clear's Trade Acceptance Service (TAS) provides a mechanism for Chi-X to submit trades into the clearing house. The CHES system performs the clearing and settlement functions.

The Trade Acceptance Service availability target for TAS is 99.80% (the same as CHES).

For the June 2015 quarter the average monthly system availability was 100% for the TAS. The average monthly availability of the TAS has been 99.99% between November 2011 and June 2015 (which is the same as CHES).

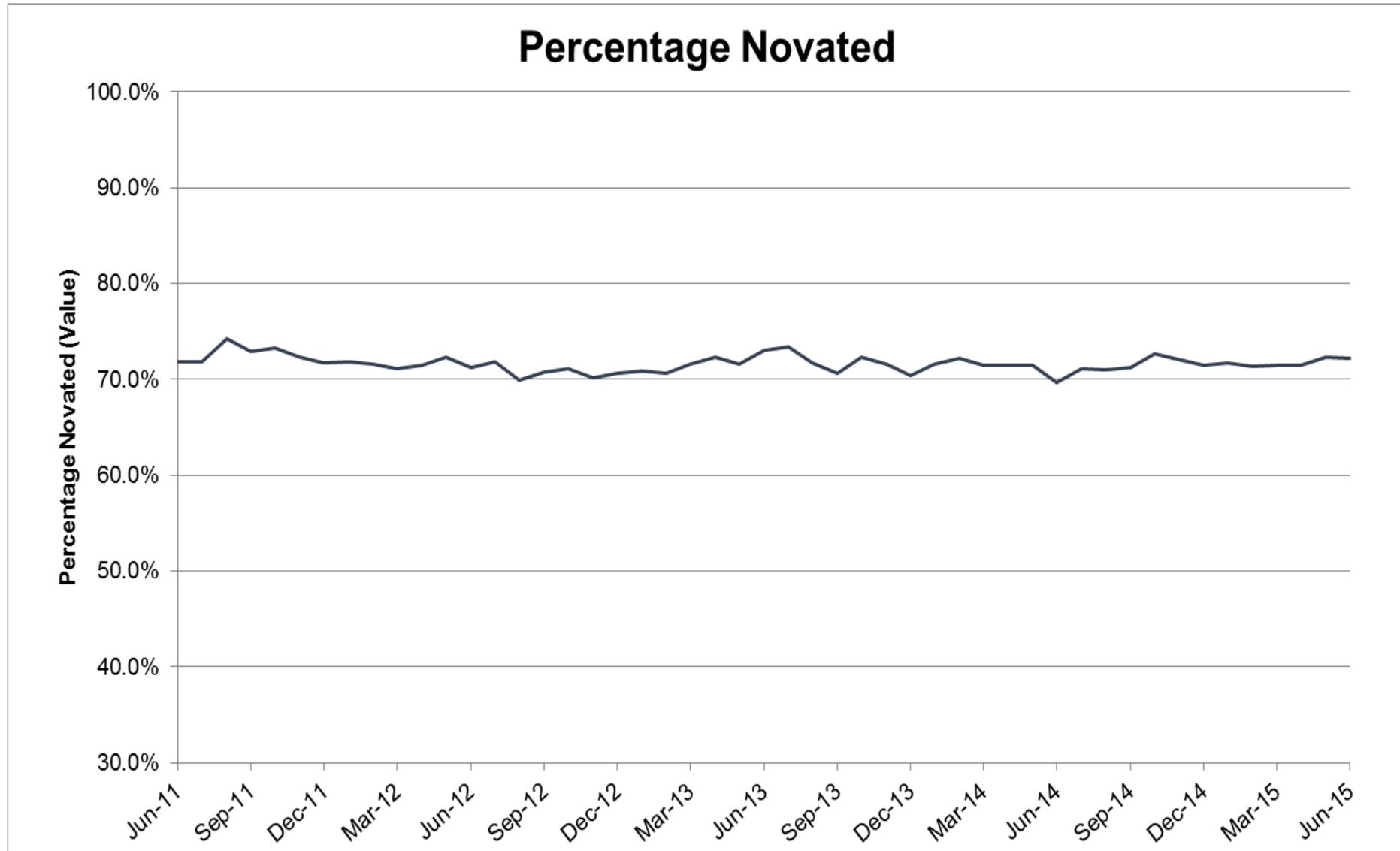
## **REPORTING ON CLEARING AND SETTLEMENT SERVICE PERFORMANCE**

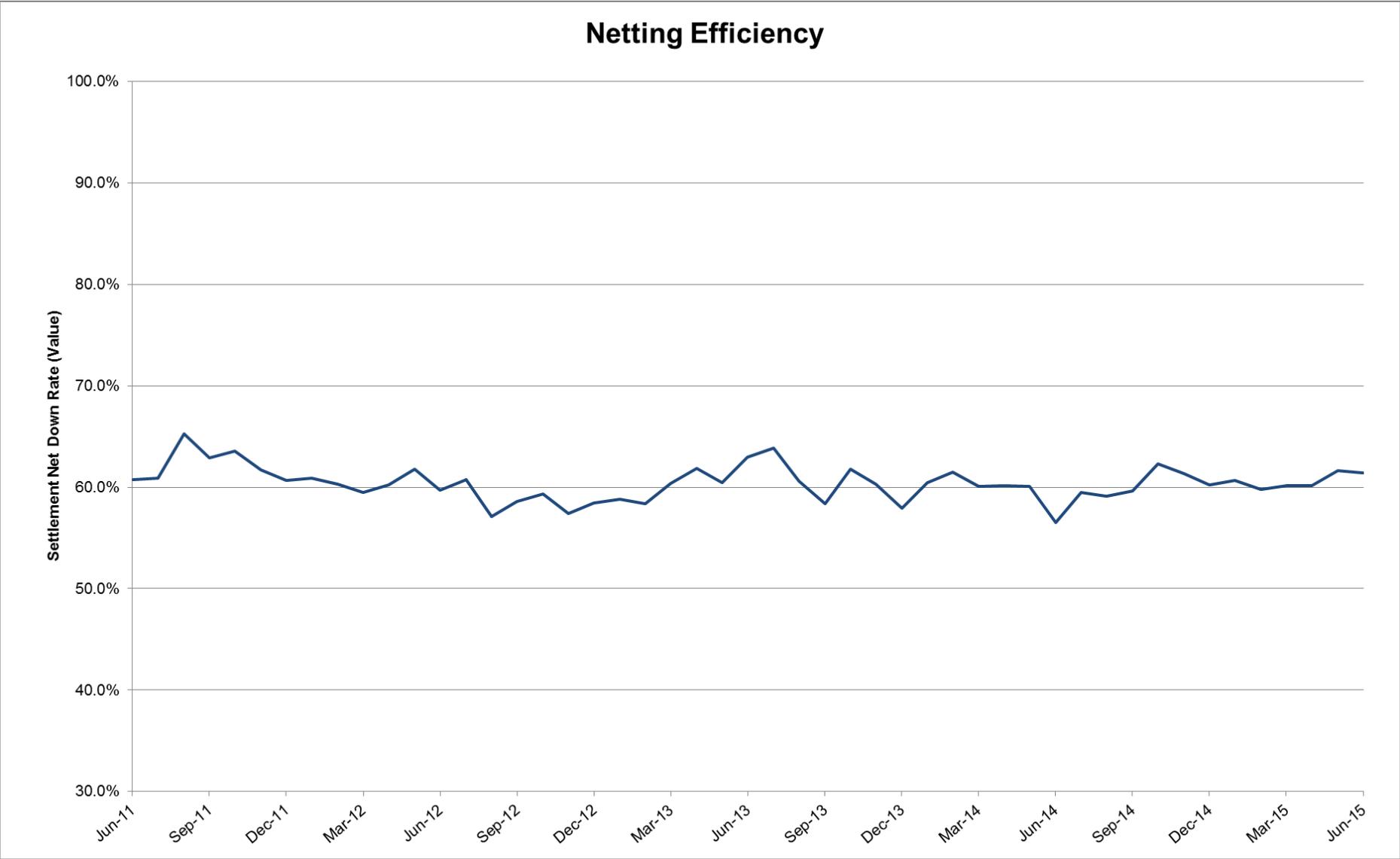
The key metrics noted above on novation, netting efficiency and settlement efficiency for the June 2015 quarter are reported in Attachment A. They are also supported by charts demonstrating a longer reporting period in Attachment B.

## ATTACHMENT A – SUMMARY METRICS RELATING TO THE PERFORMANCE OF ASX'S CLEARING AND SETTLEMENT SERVICES

	June 2015 Quarter	March 2015 Quarter
System Availability (CHES)	100%	100%
System Availability (TAS)	100%	100%
Total Trades Accepted (ASX)	50,635,751	49,107,525
Total Trades Accepted (AMOs)	14,706,977	11,410,869
Total Trades Rejected (ASX)	38	12
Total Trades Rejected (AMOs)	0	0
Daily Average Traded Value (On and Off Market)	\$6.2 billion	\$6 billion
Daily Average Cleared Value	\$4.5 billion	\$4.3 billion
Percentage Novated	72%	72%
Daily Average Cleared Value Post-Netting	\$1.7 billion	\$1.7 billion
Netting Efficiency	61.1 %	60.0%
Daily Average Settled Value (Including Non-Novated)	\$9.6 billion	\$8.6 billion
Settlement Efficiency	99.9%	99.9%
Average Cash Equities Margin	\$184 million	\$150 million

**ATTACHMENT B – PERFORMANCE OF ASX'S CLEARING AND SETTLEMENT SERVICES FROM JUNE 2011 TO JUNE 2015**





## BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 3

<b>Topic</b>	<b>Management Accounts</b>
<b>Date of the Meeting</b>	27 August 2015
<b>Purpose of this paper</b>	To inform Business Committee members of the cash market clearing and settlement management income statements for the year ended 30 June 2015.
<b>Action required</b>	To note the agenda paper.

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On 20 August 2015, ASX published, together with ASX Limited FY15 Financial Results, cash market clearing and settlement management income statements for the year ended 30 June 2015.

Both management income statements have been prepared as special purpose financial statements based on management information provided in accordance with the commitment ASX made in the Code of Practice and ASX's internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia. These management income statements have been audited by PwC, which has provided an Auditor Independence Declaration in accordance with the Corporations Act requirements.

The ASX internal cost allocation and transfer pricing policy is available on the [ASX website](#).

The cash market clearing and settlement management income statements for the year ended 30 June 2015, including supporting accounting policy notes and the independent auditors report, are provided in Attachments A and B.

### CASH MARKET CLEARING

The cash market clearing management income statement reflects a profit after tax of \$27.5 million, an economic profit after capital charge of \$5.6 million and a return on equity of 12.6%.

Total capital allocated to cash market clearing is \$218.1 million. It comprises default capital, operational capital and invested capital representing the value of fixed assets and intangibles supporting this activity.

The management accounts do not include clearing of equity options.

### CASH MARKET SETTLEMENT

The cash market settlement management income statement reflects a profit after tax of \$24.6 million, an economic profit after capital charge of \$9.9 million and a return on equity of 17.5%.

Total capital allocated to cash market settlement is \$140.9 million. This comprises business / operational risk capital and invested capital.

### Attachments

Attachment A – Cash Market Clearing Management Income Statement  
Attachment B – Cash Market Settlement Management Income Statement

**CASH MARKET  
CLEARING  
MANAGEMENT INCOME  
STATEMENT  
FOR THE YEAR ENDED  
30 JUNE 2015**

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### Management Income Statement – Cash Market Clearing

	FY15 \$ Million	FY14 \$ Million
<b>Revenue</b>		
Cash market clearing	50.7	43.5
Revenue sharing rebate	(3.6)	(0.4)
Participation fees	0.1	0.1
Technical services	0.3	0.3
<b>Operating revenue</b>	<b>47.5</b>	<b>43.5</b>
<b>Expenses</b>		
Staff	7.1	6.7
Equipment	1.4	1.6
Occupancy	1.1	1.0
Administration	1.1	1.2
<b>Operating expenses</b>	<b>10.7</b>	<b>10.5</b>
<b>EBITDA</b>	<b>36.8</b>	<b>33.0</b>
Depreciation and amortisation	2.1	1.8
<b>EBIT</b>	<b>34.7</b>	<b>31.2</b>
Net interest income	4.6	5.0
<b>Profit before tax</b>	<b>39.3</b>	<b>36.2</b>
Tax expense	(11.8)	(10.8)
<b>Profit after tax</b>	<b>27.5</b>	<b>25.4</b>
Capital charge	(21.9)	(21.7)
<b>Economic profit after capital charge</b>	<b>5.6</b>	<b>3.7</b>
<b>EBITDA margin</b>	<b>77.4%</b>	<b>76.0%</b>
Total Capital	218.1	215.8
<b>Return on capital</b>	<b>12.6%</b>	<b>11.8%</b>

## Notes to the Management Income Statement

### Summary of significant accounting policies

These statements are the management income statements for the ASX cash market clearing activities. They have been prepared following the commitment made in the Code of Practice for Clearing and Settlement of Cash Equities in Australia released by ASX on 18 July 2013.

These management statements were authorised for release by the Board of Directors of ASX Clear Pty Limited on 20 August 2015.

### Basis of preparation

These special purpose management statements have been prepared on the basis of the Code of Practice for Clearing and Settlement of Cash Equities in Australia and the associated ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia. As these are based on management information they do not comply with Australian Accounting standards.

The accounting policies adopted in the preparation of these statements are outlined below.

### Revenue recognition

Consistent with the ASX financial statements, revenue is recognised when it is probable that the economic benefits will flow to these activities and the revenue can be reliably measured. Revenue recognition policies have been consistently applied in each financial year. The specific allocation of revenues is described below.

**Cash market clearing** represents fees earned for the clearing of cash market trades transacted on ASX and other venues. Cash market trades include equities, interest rates, warrants and exchange traded funds. Fees are based on a basis point charge on the value of the transaction. These fees are accounted for at settlement date.

**Revenue sharing rebate** represents the amount of cash market clearing fees rebated to clearing participants. The amount of the rebate represents 50% of the growth in revenue (pre-rebate) from cash market clearing for the current period over the prior comparable period.

**Participant fees** represent annual and initial fees paid by clearing participants for membership in ASX Clear Pty Limited. Fees are recognised in the period earned.

**Technical services** represents fees paid for technology connectivity to the ASX clearing and settlement platform. Fees paid to access the CHES platform have been allocated between cash market clearing and cash market settlement on an equivalent basis.

## Notes to the Management Income Statement (continued)

### Expense allocations

Operating expenses have been attributed to cash market clearing based on the ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia. Costs have been attributed as either direct costs, being those that can be directly attributable to the activities specifically undertaken within cash market clearing and indirect or common costs. Indirect costs are those costs incurred that are not directly attributable to activities within cash market clearing but are undertaken to indirectly support these activities. Attributions of costs have been performed at the individual cost centre for the different divisions within the ASX group of companies.

The attribution of direct and indirect costs by expense categories are described below. The attribution has been consistently applied in each financial year. The cost allocation and transfer pricing policy is available on the ASX website.

### Staff costs

Direct staff costs have been attributed based on an analysis by division within ASX of the amount of time involved in direct cash market clearing activities. In some divisions this has resulted in an attribution based on the number of full time equivalent staff costed at actual staff cost for different functions. In other divisions the allocation has been based on the percentage of time on average spent by staff performing cash market clearing activities.

Indirect staff costs have been attributed in two ways: For divisions where the indirect or common activities cannot be specifically identified to cash market clearing, their costs have been allocated on the same percentage as total direct staff costs for all other divisions. For divisions where activities can be estimated based on analysis of functions performed, they have received a percentage allocation on that basis. These estimates are based on various activity drivers which differ among the different divisions.

### Equipment costs

Direct equipment costs have been allocated on the basis of specific expenditure incurred on technology platforms supporting the cash market clearing activities. Where technology is shared with other activities, such as the cash market clearing and settlement platform, the allocation has been based on an estimate of the functionality related to each activity.

Indirect equipment costs, being those costs that support technology platforms that provide common services to many business activities, have been allocated on the same basis as total direct staff costs, as this is considered the most appropriate driver.

### Occupancy costs

Occupancy costs have been allocated on the basis of direct and indirect staff costs attributed to cash market clearing, as the overall staff costs reflect the appropriate allocation of premises.

## Notes to the Management Income Statement (continued)

### Administration costs

All administration costs have been attributed as indirect costs, as there are no specifically identifiable costs in this category for cash market clearing. Administration costs are common across many business units and include items such as stationery, travel, insurances and marketing. As these costs are common to and support many activities, they have been allocated on the basis of indirect staff costs. This is considered to be the most appropriate driver of the majority of this expenditure.

### Interest income

Interest income reflects the investment earnings on the capital attributed to cash market clearing and the investment earnings from participant collateral lodged under cash market margining. Clearing participants receive the official cash rate on balances lodged to support cash market positions. An interest charge has been applied on the difference between the liquidity requirement for cash market clearing and the default risk capital attributed, based on market interest rates for similar facilities. The liquidity requirement has been computed on a 'Cover 2' basis, consistent with the Financial Stability Standards. FY14 liquidity has been measured on the same basis for comparability. Interest income is recognised on an accrual basis.

### Capital

The capital attribution to cash market clearing includes, default risk capital and operational risk capital supporting the clearing activities, as well as invested capital in the technology infrastructure.

The default risk capital attribution is based on the potential stress loss scenarios applicable to cash market clearing that are adopted in ASX's risk management framework. These allocate stress losses between cash equities and derivatives. Default risk capital meets the Financial Stability Standards, calculated on a 'Cover 2' default basis. FY14 capital attribution has been restated on the same basis for comparability.

Operational risk capital represents the amount of capital required for operational risk under the Financial Stability Standards.

Invested capital represents the cost of infrastructure supporting the cash market clearing activities. Where technology infrastructure is shared with other activities, the allocation is on the same basis as that adopted in the allocation of equipment costs.

The capital charge in the management income statement reflects ASX's cost of capital applied to the capital attributed to cash market clearing.

The capital attribution methodology has been consistently applied in each financial year.

### Tax

Tax expense represents a charge based on the applicable income tax rate.

**Directors' declaration**

In the opinion of the directors of ASX Clear Pty Limited:

- The management income statements and notes that are contained in pages 3 to 6 are in accordance with the Code of Practice for Clearing and Settlement of Cash Equities in Australia released by ASX on 18 July 2013, including
  - (i) Presenting fairly the management information for the cash market clearing activities of ASX Clear Pty Limited, and
  - (ii) Complying with the ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia.

Signed in accordance with a resolution of directors.

A handwritten signature in black ink, appearing to read 'Ian McGaw', with a stylized flourish at the end.

Ian McGaw  
Chairman  
ASX Clear Pty Limited

Sydney, 20 August 2015



## **Independent auditor's report to the directors of ASX Clear Pty Limited**

We have audited the accompanying management income statement for the cash market clearing activities of ASX Clear Pty Limited, which comprises the income statement and a summary of significant accounting policies for the year ended 30 June 2015.

### ***Directors' responsibility for the management income statement***

The directors of ASX Clear Pty Limited are responsible for the preparation of the management income statement and have determined that the basis of preparation described in the summary of significant accounting policies to the management income statement is appropriate to meet the requirements of the Code of Practice for Clearing and Settlement of Cash Equities in Australia which became operational on 9 August 2013 and complies with the ASX Internal Cost Allocation and Transfer Pricing Policy between ASX group entities for clearing and settlement of cash equities in Australia published on 21 August 2014.

The directors' responsibility also includes such internal control as they determine is necessary to enable the preparation of the management income statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the management income statement based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the management income statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the management income statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the management income statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the management income statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by directors as well as evaluating the overall presentation of the management income statement.

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



**Opinion**

In our opinion, the management income statement presents fairly, in all material respects, the results of the cash market clearing activities of ASX Clear Pty Limited for the year ended 30 June 2015 in accordance with the accounting policies described in the summary of significant accounting policies to the management income statement.

**Basis of Accounting and Restriction on Use**

Without modifying our opinion, we draw attention to the summary of significant accounting policies to the management income statement, which describe the basis of accounting. The management income statement has been prepared to assist ASX Clear Pty Limited to meet the financial reporting requirements of the Code of Practice for Clearing and Settlement of Cash Equities in Australia which became operational on 9 August 2013 and complies with the ASX Internal Cost Allocation and Transfer Pricing Policy between ASX group entities for clearing and settlement of cash equities in Australia published on 21 August 2014. As a result, the management income statement may not be suitable for another purpose. No opinion is expressed as to whether the basis on which the underlying management income statement is prepared is appropriate to the needs of the users.

A large, stylized cursive signature of "PricewaterhouseCoopers" in black ink.

PricewaterhouseCoopers

A large, stylized cursive signature of "Matthew Lunn" in black ink.

Matthew Lunn  
Partner

Sydney  
20 August 2015

**CASH MARKET  
SETTLEMENT  
MANAGEMENT INCOME  
STATEMENT  
FOR THE YEAR ENDED  
30 JUNE 2015**

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**Management Income Statement – Cash Market Settlement**

	<b>FY15</b> \$ Million	<b>FY14</b> \$ Million
<b>Revenue</b>		
Cash market settlement	43.8	41.3
Revenue sharing rebate	(1.2)	(0.2)
Settlement access fees	0.1	0.1
Participation fees	0.4	0.4
Settlement fail fees	1.5	1.4
Technical services	0.5	0.5
<b>Operating Revenue</b>	<b>45.1</b>	<b>43.5</b>
<b>Expenses</b>		
Staff	7.8	7.4
Equipment	2.2	2.0
Occupancy	1.1	1.2
Administration	1.4	1.5
<b>Operating expenses</b>	<b>12.5</b>	<b>12.1</b>
<b>EBITDA</b>	<b>32.6</b>	<b>31.4</b>
Depreciation and amortisation	0.2	0.2
<b>EBIT</b>	<b>32.4</b>	<b>31.2</b>
Net interest income	2.7	2.8
<b>Profit before tax</b>	<b>35.1</b>	<b>34.0</b>
Tax expense	(10.5)	(10.2)
<b>Profit after tax</b>	<b>24.6</b>	<b>23.8</b>
Capital charge	(14.7)	(14.2)
<b>Economic profit after capital charge</b>	<b>9.9</b>	<b>9.6</b>
<b>EBITDA margin</b>	<b>72.4%</b>	<b>72.3%</b>
Total Capital	140.9	135.8
<b>Return on capital</b>	<b>17.5%</b>	<b>17.5%</b>

## Notes to the Management Income Statement

### Summary of significant accounting policies

These statements are the management income statements for the ASX cash market settlement activities. They have been prepared following the commitment made in the Code of Practice for Clearing and Settlement of Cash Equities in Australia released by ASX on 18 July 2013.

These management statements were authorised for release by the Board of Directors of ASX Settlement Pty Limited on 20 August 2015.

### Basis of preparation

These special purpose management statements have been prepared on the basis of the Code of Practice for Clearing and Settlement of Cash Equities in Australia and the associated ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia. As these are based on management information they do not comply with Australian Accounting standards.

The accounting policies adopted in the preparation of these statements are outlined below.

### Revenue recognition

Consistent with the ASX financial statements, revenue is recognised when it is probable that the economic benefits will flow to these activities and the revenue can be reliably measured. Revenue recognition policies have been consistently applied in each financial year. The specific allocation of revenues is described below.

**Cash market settlement** represents fees earned for the settlement of cash market trades transacted on ASX and other venues. Cash market trades include equities, interest rates, warrants and exchange traded funds. Fees are based on a fixed charge on the number of settlement messages. These fees are accounted for at settlement date.

**Revenue sharing rebate** represents the amount of cash market settlement fees rebated to settlement participants. The amount of the rebate represents 50% of the growth in revenue (pre-rebate) from cash market settlement in the current period over the prior comparable period.

**Participant fees** represent annual and initial fees paid by settlement participants for membership in ASX Settlement Pty Limited. Fees are recognised in the period earned.

**Technical services** represents fees paid for technology connectivity to the ASX clearing and settlement platform. Fees paid to access the CHES platform have been allocated between cash market clearing and cash market settlement on an equivalent basis.

## Notes to the Management Income Statement (continued)

### Expense allocations

Operating expenses have been attributed to cash market settlement based on the ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia. Costs have been attributed as either direct costs being those that can be directly attributable to the activities specifically undertaken within cash market settlement and indirect or common costs. Indirect costs are those costs incurred that are not directly attributable to activities within cash market settlement but are undertaken to indirectly support these activities. Attributions of costs have been performed at the individual cost centre for the different divisions within the ASX Group of companies.

The attribution of direct and indirect costs by expense categories are described below. The attribution has been consistently applied in each financial year. The cost allocation and transfer pricing policy is available on the ASX website.

### Staff costs

Direct staff costs have been attributed based on an analysis by division within ASX of the amount of time involved in direct cash market settlement activities. In some divisions this has resulted in an attribution based on the number of full time equivalent staff costed at actual staff cost for different functions. In other divisions the allocation has been based on the percentage of time on average spent by staff performing cash market settlement activities.

Indirect staff costs have been attributed in two ways: For divisions where the indirect or common activities cannot be specifically identified to cash market settlement, their costs have been allocated on the same percentage as total direct staff costs for all other divisions. For divisions where activities can be estimated based on analysis of functions performed they have received a percentage allocation on that basis. These estimates are based on various activity drivers which differ among the different divisions.

### Equipment costs

Direct equipment costs have been allocated on the basis of specific expenditure incurred on technology platforms supporting the cash market settlement activities. Where technology is shared with other activities, such as the cash market clearing and settlement platform, the allocation has been based on an estimate of the functionality related to each activity.

Indirect equipment costs, being those costs that support technology platforms that provide common services to many business activities have been allocated on the same basis as total direct staff costs, as this is considered the most appropriate driver.

### Occupancy costs

Occupancy costs have been allocated on the basis of direct and indirect staff costs attributed to cash market settlement, as the overall staff costs reflect the appropriate allocation of premises.

## **Notes to the Management Income Statement (continued)**

### **Administration costs**

All administration costs have been attributed as indirect costs as there are no specifically identifiable costs in this category for cash market settlement. Administration costs are common across many business units and include items such as stationery, travel, insurances and marketing. As these costs are common to and support many activities, they have been allocated on the basis of indirect staff costs. This is considered to be the most appropriate driver of the majority of this expenditure.

### **Interest income**

Interest income reflects the investment earnings on the capital attributed to cash market settlement. Interest income is recognised on an accrual basis.

### **Capital**

The capital attribution to cash market settlement includes, operational risk capital supporting the settlement activities, as well as invested capital in the technology infrastructure.

Operational risk capital represents the amount of capital required and made available for operational risk as assessed by the Board having regard to global benchmarks.

Invested capital represents the cost of infrastructure supporting the cash market settlement activities. Where technology infrastructure is shared with other activities, the allocation is on the same basis as that adopted in the allocation of equipment costs.

The capital charge in the management income statement reflects ASX's cost of capital applied to the capital attributed to cash market settlement.

The capital attribution methodology has been consistently applied in each financial year.

### **Tax**

Tax expense represents a charge based on the applicable income tax rate.

**Directors' declaration**

In the opinion of the directors of ASX Settlement Pty Limited:

- The management income statements and notes that are contained in pages 3 to 6 are in accordance with the Code of Practice for Clearing and Settlement of Cash Equities in Australia released by ASX on 18 July 2013, including
  - (i) Presenting fairly the management information for the cash market settlement activities of ASX Settlement Pty Limited, and
  - (ii) Complying with the ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia.

Signed in accordance with a resolution of directors.

A handwritten signature in black ink, appearing to read 'Ian McGaw', with a stylized flourish at the end.

Ian McGaw  
Chairman  
ASX Settlement Pty Limited

Sydney, 20 August 2015



## **Independent auditor's report to the directors of ASX Settlement Pty Limited**

We have audited the accompanying management income statement for the cash market settlement activities of ASX Settlement Pty Limited, which comprises the income statement and a summary of significant accounting policies for the year ended 30 June 2015.

### ***Directors' responsibility for the management income statement***

The directors of ASX Clear Pty Limited are responsible for the preparation of the management income statement and have determined that the basis of preparation described in the summary of significant accounting policies to the management income statement is appropriate to meet the requirements of the Code of Practice for Clearing and Settlement of Cash Equities in Australia which became operational on 9 August 2013 and complies with the ASX Internal Cost Allocation and Transfer Pricing Policy between ASX group entities for clearing and settlement of cash equities in Australia published on 21 August 2014.

The directors' responsibility also includes such internal control as they determine is necessary to enable the preparation of the management income statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the management income statement based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the management income statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the management income statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the management income statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the management income statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by directors as well as evaluating the overall presentation of the management income statement.

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



**Opinion**

In our opinion, the management income statement presents fairly, in all material respects, the results of the cash market clearing activities of ASX Settlement Pty Limited for the year ended 30 June 2015 in accordance with the accounting policies described in the summary of significant accounting policies to the management income statement.

**Basis of Accounting and Restriction on Use**

Without modifying our opinion, we draw attention to the summary of significant accounting policies to the management income statement, which describe the basis of accounting. The management income statement has been prepared to assist ASX Settlement Pty Limited to meet the financial reporting requirements of the Code of Practice for Clearing and Settlement of Cash Equities in Australia which became operational on 9 August 2013 and complies with the ASX Internal Cost Allocation and Transfer Pricing Policy between ASX group entities for clearing and settlement of cash equities in Australia published on 21 August 2014. As a result, the management income statement may not be suitable for another purpose. No opinion is expressed as to whether the basis on which the underlying management income statement is prepared is appropriate to the needs of the users.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to be 'Matthew Lunn', written in a cursive script.

Matthew Lunn  
Partner

Sydney  
20 August 2015

# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4A

<b>Topic</b>	<b>Clearing Participant Structures – Considerations for Principal to Principal Clearing</b>
<b>Date of the Meeting</b>	27 August 2015
<b>Purpose of this paper</b>	To update the Business Committee on status of the analysis of the P2P legal sub-working group.
<b>Action required</b>	To endorse a recommendation to deprioritise the Principal to Principal concept.

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## BACKGROUND

The Business Committee agreed that further work on 'Principal to Principal' (P2P) clearing arrangements should be progressed and at the 27 August 2014 Business Committee meeting, there was agreement that a smaller working group of interested participants would be established.

It was also agreed that in support and readiness for a joint engagement with ASIC on P2P clearing arrangements, to establish a legal sub-working group to progress the legal and regulatory analysis. The Legal sub-working group was formed to identify relevant issues for retail client protections and financial service provision under a P2P model, prepare detailed legal submission for provision to ASIC and then jointly brief ASIC on the legal submission. Key to the issues to be addressed by the Legal sub-working group was any impact of the P2P model on retail client protections. ASIC singled out retail client protection as a central issue in its consideration of P2P clearing arrangements.

## STATUS OF LEGAL ANALYSIS

The legal sub working group met for the first time in February 2015. At this meeting ASX provided a detailed background briefing to members, confirmed relevant issues for analysis and sought nominations by legal sub-working group members to conduct the required legal and regulatory analysis. The original target was for analysis to be completed by April, in preparation for a joint ASIC briefing by May 2015.

As reported to the Business Committee of 27 May 2015, ASX was unable to secure sufficiently broad industry nominations to adequately conduct the analysis and support the briefing to ASIC (3 participants nominated legal representatives, 2 of whom had a wholesale client only focus). In particular there is a need for analysis of participants' retail client obligations under existing and P2P models.

In the Business Committee of 27 May 2015, ASX agreed to follow up bilaterally with a number of counterparties best placed to conclude the input into the streams of work most relevant to entities with retail service provision. From those meetings, ASX has been unable to secure further nominations to adequately conduct the analysis.

Some participants have indicated the P2P remains a priority for delivering structural improvement to the markets. However given insufficient industry support to progress the P2P concept analysis and briefing to ASIC at this time, it is recommend that this initiative be deprioritised.

## QUESTIONS FOR THE BUSINESS COMMITTEE

- Does the Business Committee take a different view to ASX's recommendation to deprioritise the P2P concept given insufficient support to continue?

# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4B

<b>Topic</b>	Update on T+2 implementation
<b>Date of the Meeting</b>	27 August 2015
<b>Purpose of this paper</b>	The Business Committee will be provided with an update on preparation for the implementation of a T+2 settlement cycle, including process and technical readiness and go/no-go decision frameworks.
<b>Action required</b>	To note the agenda paper and provide feedback on future considerations for implementation.

## PROJECT UPDATE

The T+2 project is tracking to plan for an implementation of 7 March 2016. Since the Business Committee meeting of 27 May 2015 the following key milestones and deliverables have been met: (refer Attachment A - Project Roadmap)

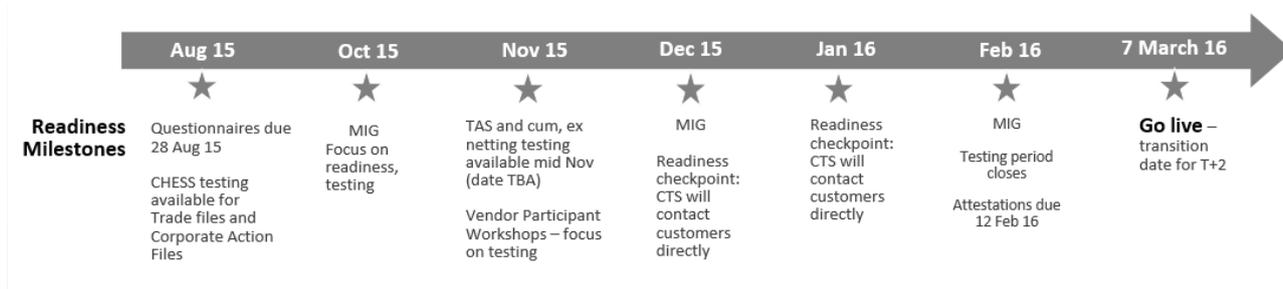
- ASX T+2 stand at the Stockbrokers Association (SAA) conference in May 2015
- 3rd Market Implementation Group (MIG) webinar held on 25 June 2015
- Share registry workshops held during June 2015
- Consultation paper on proposed operating rule amendments paper released on 27 May 2015, response deadline 8 July 2015
- Proposed operating rule amendments lodged with ASIC for review July 2015. Targeting regulatory approval by December 2015

NZX and AFMA (representing the wholesale bond market) have both confirmed their intention to move to T+2 settlement in alignment with ASX in March 2016.

## READINESS AND GO / NO-GO DECISION FRAMEWORK

ASX is now engaged in the next project phase of providing guidance to market stakeholders in preparation for the transition to T+2. This includes the Industry Readiness Guide that has been circulated to the Business Committee and published by ASX.

Part of the implementation readiness process is early planning for and communication of the key readiness checkpoints in the lead up to the 7 March 2016 target go-live date. This is outlined in the timeline and scenario example below.



In addition, there is the normal ASX implementation readiness process that takes place before any project go-live and release into production environment, including the readiness checkpoint immediately prior to the go-live weekend.

There are three broad categories of risk to implementation to be checked in the lead-up to the target go-live date:

- **Internal readiness** – Any significant ASX system issue identified that requires re-development / delay
- **External readiness** – A key participant, a major CHESSE software vendor or an alternate market operator is identified as having significant issues preventing it from meeting the target go-live date
- **Other markets** – NZX and/ or the wholesale bond market is identified as unable to meet the target go-live date (alignment is identified as important and ideal but there is no planned dependency)

Readiness Risk	Scenario	Decision
ASX (internal readiness)	ASX internal systems not production-ready by end January 2016	Analysis undertaken of system issue and impact to external customers GO/NO GO decision dependent on impact of fix on customer testing
Participant/software vendor (external readiness)	Readiness attestation not received by 12 February 2016	GO/NO GO decision dependent on assessment of potential settlement efficiency impact
AFMA (other markets)	ASX ready for go live, wholesale debt market not ready Wholesale debt market ready for go-live, ASX not ready	GO decision likely Wholesale debt market go-live date to be determined by AFMA
NZX (other markets)	ASX ready for go-live, NZX not ready NZX ready for go-live, ASX not ready	GO decision likely NZX go-live date to be determined by NZX

ASX is providing a dedicated ASX Customer Technical Support (CTS) team to track readiness and progress leading up to the target go-live date including:

- Customer readiness, initially by reviewing completed T+2 Questionnaires (per August Market Notice)
- Testing with ASX through the CHESSE test environment
- Checking directly with CHESSE software vendors and clearing and settlement participants in December 2015 and January 2016 on their progress
- Technical Attestations from CHESSE software vendors (including in-house) and an Operational Attestation from clearing and settlement participants

## NEXT STEPS AND FOCUS

ASX will continue to provide guidance for market stakeholders in readiness for the transition to T+2, with key activities including:

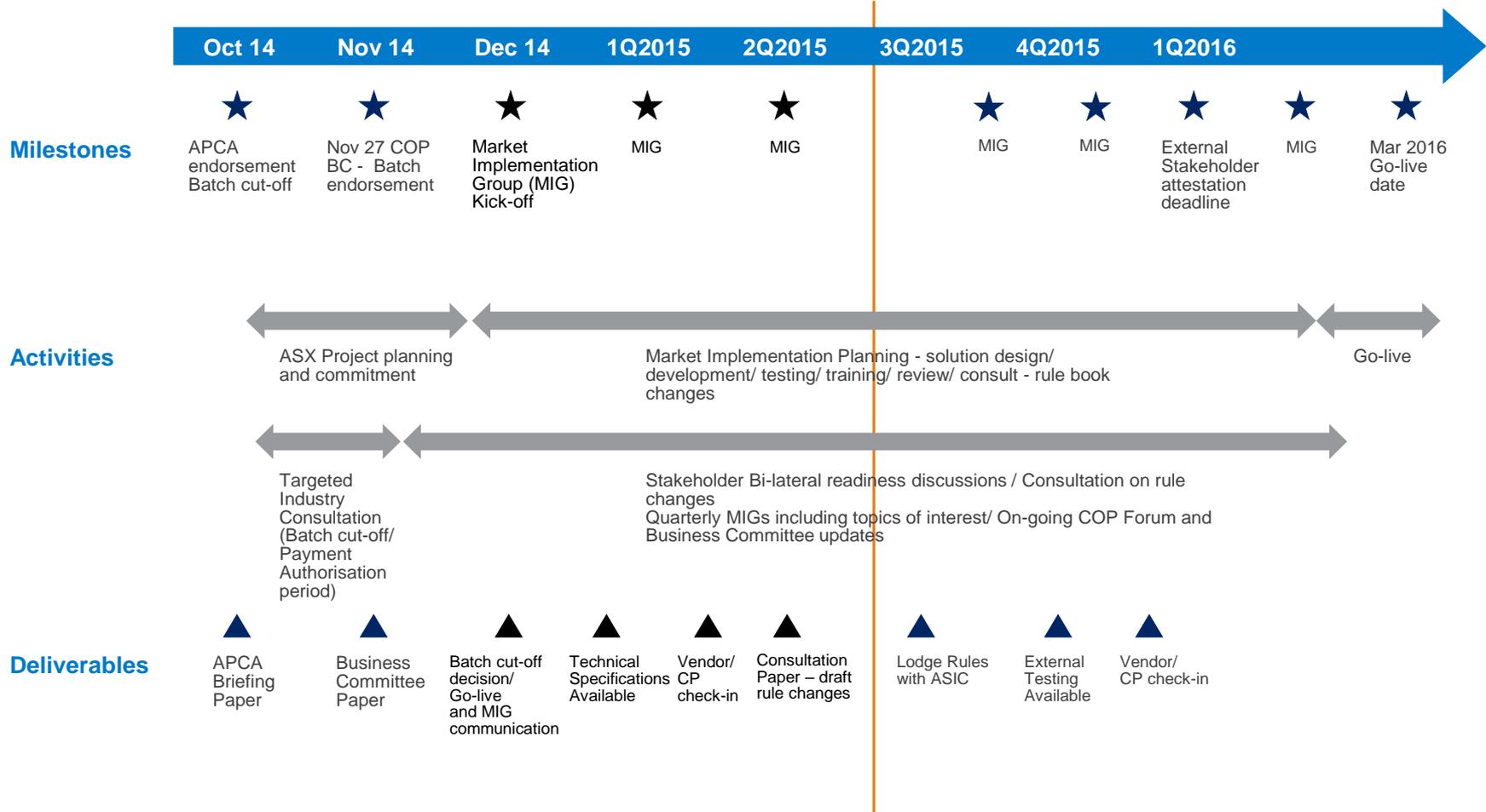
- Producing educational material that can be used by participants to communicate with their direct customers. This will be ready by early September. Articles are also planned for ASX News – Investor Update News and the SAA newsletter.
- ASX will contribute to industry discussions on an agreed approach towards the reduction of cheque payments across the settlement process. ASX is meeting with both the APCA CHESSE sub-committee and SAA's Retail Broking Committee to assist with the discussion and decisions on the best way forward.
- The next MIG webinar is planned for mid-October where the attention will be focussed on testing readiness, go/no-go frameworks and additional topics of interest.

ASX will continue to engage in bilateral discussions and industry workshops as required.

**QUESTIONS FOR THE BUSINESS COMMITTEE**

- Do any Business Committee members foresee any key risks or issues that have not been addressed in the presentation?
- Are there any other resources ASX can provide to assist with a smooth transition to T+2?

# T+2 Project Roadmap



# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 4C

<b>Topic</b>	FATCA and CHESS Release 9.0
<b>Date of the Meeting</b>	27 August 2015
<b>Purpose of this paper</b>	To update the Committee on progress with Foreign Account Tax Compliance Act (FATCA) & Common Reporting Standard (CRS) requirements and the CHESS 9 release.
<b>Action Required</b>	For noting.

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## BACKGROUND - FATCA and CRS OBLIGATIONS

ASX Notice 0852.15.07 released on 23 July (see Attachment A) advised the market of the postponement of CHESS Release 9.0 to a time to be advised.

In May the Business Committee discussed issues arising from FATCA/CRS compliance for Listed Investment Entities (LIEs) and the ongoing consultation with industry around a possible solution involving the use of CHESS to provide a workable solution. There were two agreed actions coming out of that meeting:

- ASX to provide an update on engagement with participants and stakeholder groups on the proposed commercial arrangements relating to a possible CHESS arrangement relating to FATCA/CRS compliance. **[Agreed action 4]**
- ASX would advise the market at the end of June if CHESS Release 9.0 would proceed as proposed, or if there were any modifications. **[Agreed action 5]**

## UPDATE ON FATCA/CRS ENGAGEMENT

In mid-June an industry delegation comprising representatives from the Financial Services Council (FSC), product issuers, registries, the Stockbrokers' Association of Australia and ASX met with Treasury/ATO to seek clarification on recent ATO guidance around the obligations on issuers relating to FATCA compliance.

The industry representatives outlined the practical difficulties the recent IRS (and associated ATO) guidance caused in delivering a solution that meets the requirement to restrict purchases of LIEs where a FATCA self-certification from investors had not been received. This requirement is more onerous than the original expectation that compliance could be achieved by merely reporting non-compliant account holders to US authorities.

Attendees stressed that such a solution would be disruptive to the normal operation of the market and would have high compliance costs. Officials acknowledged the difficulties involved but noted that the interpretation was consistent with both the Australian legislation and the position agreed through the Intergovernmental Agreement signed with the US. They requested industry to identify possible models to deliver full FATCA compliance, recognising that it may be necessary to move to this position over time. However, a clear pathway needs to be developed that can be discussed and agreed with US officials.

At that meeting the CHESS model, based on post-trade information, was identified as one possible mechanism that could provide a transitional stage to underpin the development of a pre-trade solution, which would eventually deliver full compliance with both FATCA and CRS.

Officials indicated that, where possible, the longer-term solution should be future proof for the CRS (due to operate from mid-2018), as this also requires a self-certification upon account opening. Treasury will be consulting on the CRS framework in coming months.

Following the Canberra meeting there have been further meetings and discussions between stakeholders and with officials to progress the development of the various models. ASX has been consulting on the role that CHESS could play in collecting and disseminating the necessary information.

These discussions are continuing. Officials are currently considering alternate mechanisms which could deliver FATCA/CRS compliance without imposing additional operational and compliance costs on issuers or brokers. This may avoid the need for any changes to CHES. It is hoped that over the next few weeks further discussions can reach an agreed model between industry and officials. Once the preferred model is identified it will be possible to determine if there are any technical and operational costs for issuers and brokers associated with implementing the solution.

ASX has made it clear that implementation of a CHES-based solution would not proceed if broad industry consensus is not achieved in relation to the design of the arrangements and funding of the solution, with affected issuers contributing monies to offset increased broker costs. Any solution is also dependent on Treasury/ATO providing comfort that the proposal meets the regulatory requirements and that the timing of its introduction does not interfere with the implementation of the systems changes associated with T+2 settlement.

### **CHES 9.0 RELEASE**

Given the current uncertainty around any proposed FATCA/CRS changes, ASX confirmed that CHES release 9.0 would be postponed until an agreeable solution can be reached. We will advise the market if any agreement involves changes to CHES. At that time we would also provide the associated technical specifications and consult on rule changes.

ASX decided to release into the test environment other mFund related changes that were going to be included in the CHES 9.0 package to allow those impacted by these features to, if they wish, begin developing and testing work.

### **NEXT STEPS**

Participants will be advised through an ASX Notice as soon as there is any change to the current situation.

ASX will also continue to update the Business Committee with progress on these issues.

# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 5A

<b>Topic</b>	Code of Practice
<b>Date of the Meeting</b>	27 August 2015
<b>Purpose of this paper</b>	To update the Committee on the Code of Practice
<b>Action Required</b>	None

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## BACKGROUND

A Government decision on the review of the market structure for clearing cash equities is expected soon. Once a decision is announced there will be implications for the future operation of the Code of Practice including the Forum and Business Committee.

ASX maintains that the sole provider model is the appropriate one for a market the size of Australia and has recommended that the current market structure be extended for five years. This would give ASX certainty to proceed with a significant investment in Australia's equities clearing and settlement infrastructure, including a 'once in a generation' replacement of CHES.

If the current structure is retained, ASX has committed to implement a new clearing fee schedule that would provide savings of approximately \$7.3 million per annum to its clients (based on FY15 volumes), and to strengthen the Code of Practice that sets out how ASX manages the infrastructure on behalf of the market. The Code was first introduced in August 2013 and has delivered outcomes consistent with a competitively dynamic marketplace. It is an effective form of industry-led regulation that supports collaboration and service innovation.

If ASX's submission for a 5 year extension of the moratorium is adopted then the changes to the Code of Practice would include:

- the administrative improvements arising from the consultation process held at the end of 2014. There were a small number of submissions on this process. The improvements were broadly supported at the Business Committee and through the consultation;
- any enhancements to the Code arising from a Government decision. In its submission to the Council of Financial Regulators' review ASX identified a number of areas where strengthened regulatory controls could be incorporated in the Code.

If the moratorium is not extended ASX will consider what arrangements are appropriate in any new market structure.

## NEXT STEPS

ASX will update the Business Committee following announcement of a Government decision.

# BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 6B

<b>Topic</b>	<b>Forward Work Program Update</b>
<b>Date of the Meeting</b>	27 August 2015
<b>Purpose of this paper</b>	To update the Business Committee on the forward work program for 2015.
<b>Action Required</b>	The Business Committee is invited to review completed items, and provide feedback on the future topics for discussion and the prioritisation.

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## OVERVIEW

The forward work program included in Attachment A covers the period of meetings of the Business Committee from November 2014 to November 2015. The Business Committee provided input into the forward work program at the 27 August 2014 and 27 November 2014 meetings and had further opportunity at its last 27 May 2015 meeting.

The forward work program sets out work streams according to the following four major themes:

1. Capital efficiency and industry economics;
2. Participant structure flexibility and efficiency;
3. Service Innovation; and
4. Technology and Infrastructure enhancements.

## QUESTIONS FOR THE BUSINESS COMMITTEE

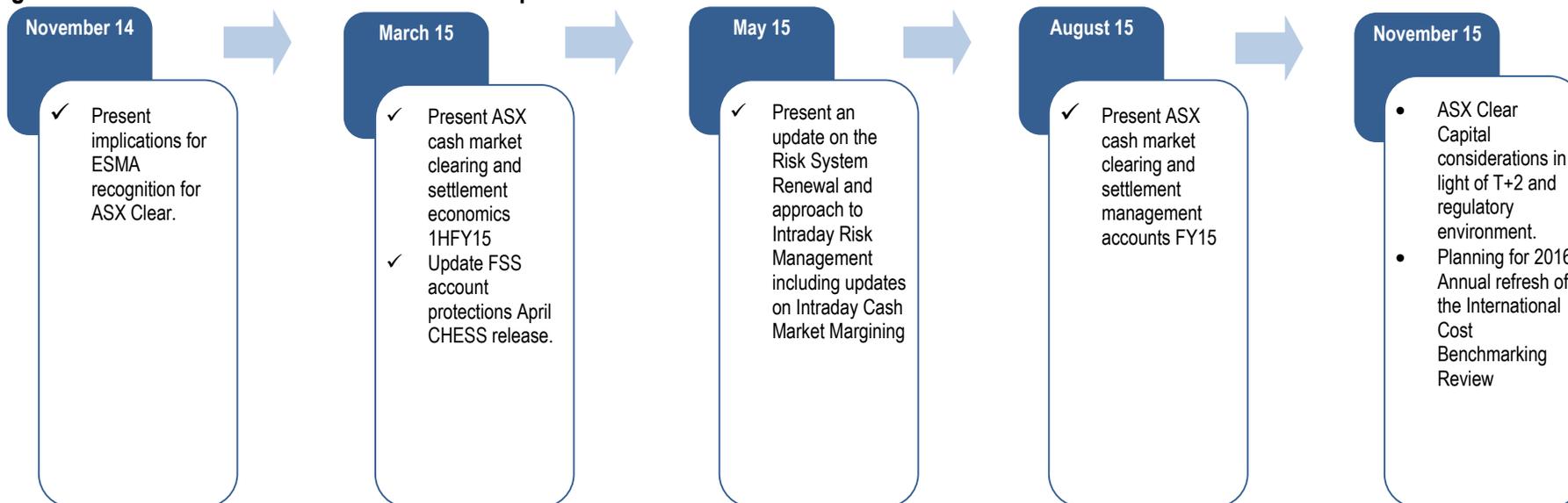
- Does the draft forward work program extending to November 2015 continue to reflect industry priorities?
- There is an opportunity to invite external speakers or to hold special topic roundtable discussion in the November 2015 meeting. Is there a specific topic that the Committee would like to review?

## ATTACHMENTS

Attachment A – Forward work program - November 2014 to November 2015

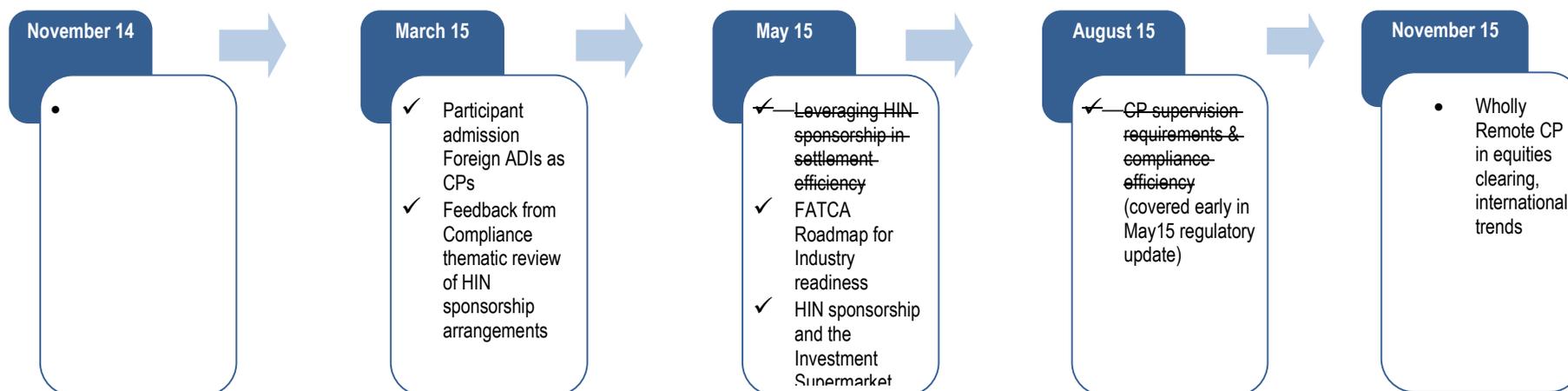
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>1. Capital Efficiency and industry economics</b>	To minimise the capital costs for ASX's customers whilst maintaining robust CCP capital support	a. ASX cash market clearing and settlement economics	ASX to publish management accounts in respect of the clearing and settlement of cash equities in Australia at the same time that ASX reports its half and full-year results. ASX will provide a detailed briefing at the Business Committee meeting following publication of results.
		b. International benchmarking of cash market clearing and settlement costs	ASX Clear and ASX Settlement will refresh and review annually the results of the June 2014 international price benchmarking report on the cost of post trade services.
		c. Capital and risk review, including margining and liquid capital requirements	ASX will provide a review of risk protections provided since the introduction of cash market margining and will review liquid capital requirements in this context.
		d. Regulatory requirements, including Financial Stability Standards	ASX will update the Committee on the ASX progress in meeting new Financial Stability Standards (FSS) relating to account segregation and portability, and liquidity risk.

**Timing for Business Committee Consideration of Topics**



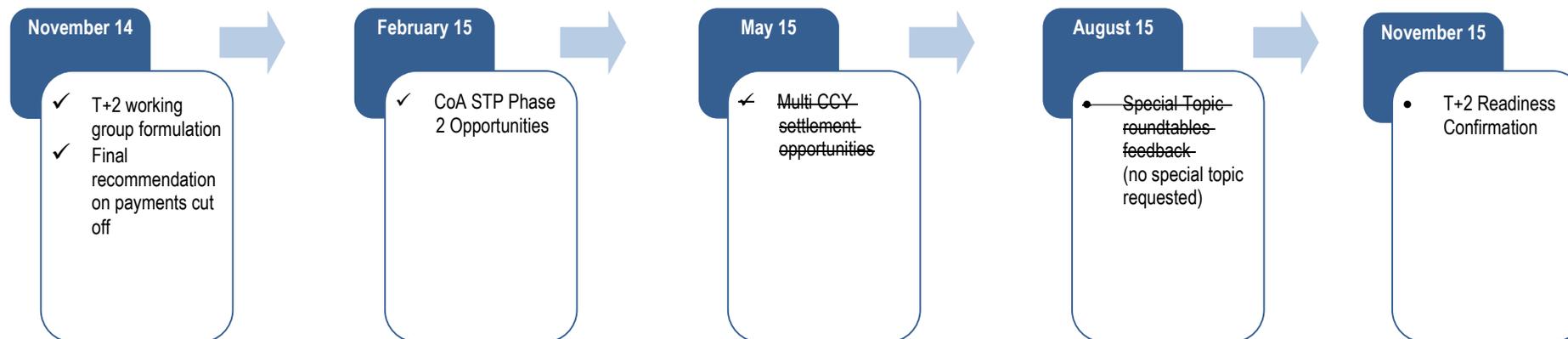
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>2. Participant Structure, Flexibility &amp; Efficiency</b>	To align ASX's participant access regime with its customers' evolving business models	a. Participant structures, admission requirements	ASX will continue to explore additional proposals on alternate clearing participant admission criteria including harmonisation and standardisation across ASX CCPs. ASX will seek feedback on potential benefits to industry of potential changes.
		b. Participant Structure variations	ASX will present a proposal for alternative participant operating structures, including the potential introduction of a principal to principal model or enhanced settlement participant models or HIN sponsorship arrangements. ASX will seek feedback on potential benefits to industry of potential changes in terms of capital costs, margin efficiencies, operating costs and transactional efficiency.
		c. Participant location requirements	ASX will provide an update on industry trends in terms of participant location in clearing and settlement and will seek feedback from the Committee on whether greater flexibility is required and could be supported under current legal and regulatory settings, and identify what domestic location requirements are necessary.
		d. Outsourcing structures	ASX will provide an update on industry trends in outsourcing arrangements and will seek feedback from the Committee on whether greater flexibility is required and could be supported under current risk, legal and regulatory regimes or whether formal requirements on outsourcing are necessary.

**Timing for Business Committee Consideration of Topics**



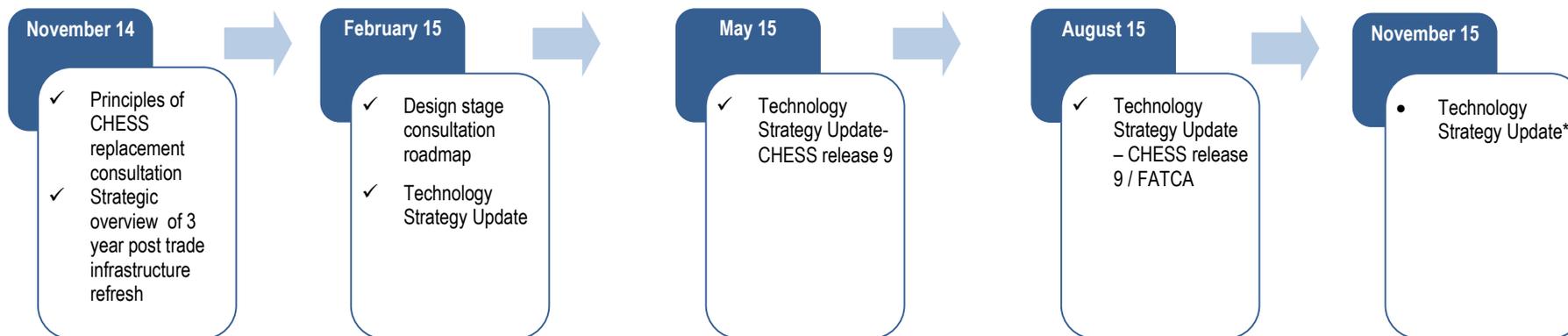
Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>3. Service Innovation</b>	To deliver global best practice cash market clearing and settlement services	a. Corporate action straight through processing	The ASX will present opportunities for future and continued enhancements in streamlined processes for corporate actions in context of CHES replacement plans. Principles which will deliver a streamlined process for the announcement, data capture and delivery (using ISO 20022) of corporate action information.
		b. Australians timeline for T+2 settlement cycle & final batch cut-off conclusions	ASX will provide regular verbal updates on the industries move to meet T+2 settlements by 1Q2016. The Committee will explore final consideration for changes to batch cut off as well as industry engagement on ETF market issues, Bond Market and International Market alignment.
		c. Clearing and Settlement Hosted solutions	ASX will provide an update on industry trends towards clearing and settlement participant hosted solutions, and seek the Committee's feedback on whether greater flexibility is required and could be supported under current risk, legal and regulatory settings.
		d. Non novated settlement efficiencies	ASX will host a number of operational roundtables to discuss settlement delivery efficiencies and innovations.
		e. Multi CCY considerations	ASX will review opportunities for multi-currency settlement in light of current offerings in RMB and future CHES replacement plans.

**Timing for Business Committee Consideration of Topics**



Theme	Objectives	Possible topics for discussion / agenda items	Description of topic
<b>4. Technology &amp; Infrastructure Enhancement</b>	To maintain and upgrade technology and infrastructure consistent with global standards	a. ASX infrastructure investment program	ASX will provide a roadmap of its three year infrastructure investment program and seek the Committee’s feedback on service innovation requirements and the market infrastructure considerations including clearing, risk, settlement and depository functionality.
		b. Timing and process for ASX feasibility study for CHES replacement	ASX will provide detailed plans for the equity clearing and settlement capabilities and CHES replacement feasibility study. A technical committee will be established in order engage industry participants and stakeholders, including vendors, on implementation considerations and requirements.

**Timing for Business Committee Consideration of Topics**



\* Decision on Cash Clearing and Settlement (CHES) expected in FY16 once there is clarity on clearing market structure.

## **BUSINESS COMMITTEE MEETING PAPER AGENDA ITEM 6C**

<b>Topic</b>	Minutes from 27 May 2015 meeting
<b>Date of the Meeting</b>	27 August 2015
<b>Purpose of this paper</b>	To provide Business Committee members with a copy of the minutes and Business Committee report to the Forum from the 27 May 2015 meeting.
<b>Action required</b>	To approve the minutes and report to the Forum from the 27 May 2015 meeting.

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Draft minutes and the draft report to the Forum from the 27 May 2015 Business Committee meeting were emailed to all members of the Business Committee on 16 June 2015 for comments by 23 June 2015.

There were no changes to the draft minutes and report suggested by Business Committee members.

The Business Committee minutes were signed by the Chair on 24 June 2015.

A copy of the minutes and report to the Forum from the 27 May 2015 meeting are provided in Attachments A and B.

### **ATTACHMENTS**

Attachment A – Minutes from the 27 May 2015 Meeting

Attachment B – Business Committee Report to the Forum from the 27 May 2015 Meeting



MINUTES OF THE BUSINESS COMMITTEE  
WEDNESDAY, 27 MAY 2015  
ASX LIMITED  
LEVEL 1, 20 BRIDGE STREET SYDNEY

- 1. Introduction**
- 2. Service Performance**
- 3. Business Matters**
  - a. Principal-to-principal clearing arrangements
  - b. Corporate actions STP
  - c. Update on T+2 implementation
  - d. FATCA & Common Reporting Standards
  - e. CHES Release 9
- 4. Regulatory Updates**
  - a. ESMA Recognition
  - b. Risk Systems Renewal Process
- 5. Administration**
  - a. Business Committee membership
  - b. Forward work program
  - c. Minutes from the 4 March 2015 meeting
  - d. Other Matters

## ATTENDEES

MEMBERS		
Company	Name	Job Title
ABN AMRO Clearing	Mr Sean Lawrence	Managing Director
ASX	Mr Peter Hiom	Business Committee Chair, Deputy CEO, ASX
Bank of America Merrill Lynch	Mr Anatoly Kirievsky	Head of Compliance
Bell Potter Securities	Mr Dean Surkitt (By telephone)	Managing Director Retail
BNP Paribas	Mr Justin Christopher	Chief Operating Officer
Chi-X Australia	Mr Jamie Crank	Head of Product
Citi	Mr Miles O'Connor	Director, Direct Custody & Clearing Securities & Funds Services
Commonwealth Bank of Australia	Mr Sheridan Thompson	Head of Strategic Development, CommSec
Deutsche Bank AG	Mr Russell Deal	Chief Operating Officer
Goldman Sachs	Mr Jeremy Follett	Executive Director Operations
J.P. Morgan	Mr Suneet Jain	Sales Business Manager, Markets & Investor Services
Macquarie Group	Mr Cameron Ritchie	Chief Operating Officer
Morgan Stanley	Mr Craig McGuire	Head of Operations
Morgans	Ms Sue Gye	Manager Operations
NSX	Mr Emlyn Scott	Chief Executive Officer
Patersons Securities	Mr Sam Budiselik	Chief Operating Officer
Patersons Securities	Ms Jane Irwin	Head of Operations
UBS	Mr Conor Foley	Chief Operating Officer

ASX Management	
Name	Job Title
Mr Tim Hogben	Group Executive, Operations
Ms Danielle Henderson	General Manager, Clearing Services
Mr Marcin Firek	General Manager, Company Secretariat
Mr Daniel Moran	Deputy General Counsel Corporate
Mr Andrew White	General Manager, Settlement Services (Item 3B)
Mr Rodd Kingham	Senior Manager, Clearing Services (Item 3C)
Ms Janine Ryan	General Manager, Legal (Item 3D)
Mr Chan Arambewela	Product Manager (Item 3D & 3E)
Mr Brendan Luscombe	General Manager, Clearing Risk Management (Item 4B)

## APOLOGIES

MEMBERS		
Company	Name	Job Title
APX	Mr David Lawrence	Chief Operating Officer & Company Secretary
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
HSBC	Mr Andrew Bastow	Head of Securities Services
J.P. Morgan	Mr Samuel Mann	Business Manager, Australia Equities
Macquarie Group	Mr Michael McKeown	Chief Operating Officer
Pershing Securities	Mr Rob Forbes	Chief Executive Officer
ASX Management		
Company	Name	Job Title
ASX	Ms Amanda Harkness	Group General Counsel & Company Secretary

The Chair formally opened the meeting at 12.10pm. Attendance for part of the meeting is noted in the attendee section on the preceding page.

## **AGENDA ITEM 1: INTRODUCTION**

The Chair welcomed Committee Members, including those participating by phone.

The Chair welcomed Sean Lawrence who was attending for the first time representing ABN AMRO as well as alternate representatives Cameron Ritchie from Macquarie Bank and Jane Irwin from Patersons Securities.

## **AGENDA ITEM 2: SERVICE PERFORMANCE**

The Committee noted the report on the operational performance of cash market clearing and settlement services set out in the agenda paper, including key clearing and settlement metrics for the quarters ended December 2014 and March 2015.

ASX's Group Executive, Operations spoke to the agenda paper, noting that:

- CHES and TAS system availability was 100% for both quarters.
- Total trades accepted were down about 2% and valued cleared up about 7% in the March quarter.
- There were no trades rejected through the TAS and a small number of trades rejected through ASX Trade, most of which related to the use of an invalid basis of quote.
- Netting efficiency volume and value were steady across both quarters.
- Average settlement failure rates were consistent with previous quarters at about 0.24%.
- Average cash market margin held was \$150 million. There were slight delays by a couple of participants in meeting the 10.30am cut-off time, as a consequence of operational issues with entering payments. Referrals were subsequently made to ASX Compliance.
- mFund settlement transactions and funds under management increased in the March quarter. This was a good improvement in mFund business, with 23 fund managers committed to providing 87 funds, up from about 75 funds in the December quarter.

ASX's Group Executive, Operations also informed the Committee that:

- There were no specific issues with ASX infrastructure during the March quarter. One issue with RBA SWIFT message dissemination in February did not impact on equity settlement but provided some learnings for CHES replacement design, particularly in relation to the technical support for critical messaging protocols.
- ASX has established an external advisory panel of industry representatives to consult in relation to decisions made by ASX in the event of significant technology and operational issues, such as an outage on one of the trading platforms or in data dissemination, so that ASX can better understand the impact on participants and take this into account when making decisions.

The Chair noted that there had been an issue with the implementation of the new client segregation enhancements and asked if any Members wished to discuss that. No Members commented. ASX's Group Executive, Operations explained there was an issue related to the association of particular HINs with payment facilities, which had resulted in a delay to start of settlement until 11am on the first settlement day that the enhancements were effective. The issue was resolved on that day and the client segregation enhancements were now working as expected.

The Chair invited any other questions on the report. A Member commented on the Mirabella issue, noting that the four main action items coming out of that issue had been resolved. ASX's Group Executive, Operations provided a brief overview of that issue and outlined the actions that had

been taken. These included improvements to communications about capital restructures to the market and to clients. The Group Executive, Operations noted that related operating rule changes had become effective earlier that week.

There were no other questions or comments from Members.

## **AGENDA ITEM 5: BUSINESS MATTERS**

### **a. Principal-to-principal clearing arrangements**

ASX's General Manager, Clearing Services updated the Committee on the work of the working group examining principal to principal clearing arrangements (P2P), noting that:

- Since the last Business Committee meeting, ASX had workshopped the high level P2P model with the legal working group, in order to develop responses to regulatory issues raised by ASIC.
- The development of these responses required input from volunteer participant representatives, including those with wholesale and retail client expertise. While considerable work had been done, there were still questions requiring input, particularly from volunteers with retail client knowledge. Without this input of, it would be difficult to take the regulatory analysis forward.

The General Manager, Clearing Services asked the Committee for input on obtaining volunteers for those unresolved questions, and more generally on the level of priority of this initiative for Members, in view of the work that would be involved in completing the regulatory analysis and then engaging on those issues with ASIC.

A Member commented positively about the initiative as structurally progressive for the industry, and raised the possibility of engaging with ASIC to develop a better approach in relation to retail client protection.

There were no further comments from Members. The General Manager, Clearing Services took it as an action item to follow up over the next month with firms who had expressed interest in volunteering, with a view to identifying by the end of June whether the necessary support had been achieved, or whether this initiative should be de-prioritised. This would be reported to the Committee in August. **[Agreed action 1]**

### **b. Corporate actions STP**

ASX's General Manager, Settlement Services updated the Committee on implementation of Phase 1 of the Corporate Actions STP (straight-through processing) project. The mandatory implementation date for issuers had been extended from the end of March until the end of June. This allowed for some changes to the way that data is entered by issuers and received by market data customers, and also for the provision of a training environment.

The General Manager, Settlement Services provided an overview of the lessons learned from Phase 1:

- Clearly communicating interdependencies on other initiatives (noting that, while Phase 1 was dependent on ASX's refresh of its CORE database, that dependency was not present for Phase 2).
- Bringing stakeholder groups together regularly to understand their different perspectives and requirements and ensure that these are communicated between them.
- The benefits that could be gained from removing the corporate events from the operating rules and publishing them in a separate document so that iterative changes could be made without going through a formal rule amendment process (noting that this would require regulatory approval).

The General Manager, Settlement Services noted that further detailed planning work had been done on Phase 2, and that it was now thought that this could be delivered in around 12 (rather than 18) months. Taking into account industry commitments on other initiatives (particularly T+2 and FATCA reporting), it was thought that a sensible starting point would be around July 2016.

Members were invited by the Chair to comment on the proposed timing.

A Member commented that previous timetables had CHES replacement following Phase 2 of STP and asked if this meant that the timing for CHES replacement was pushed out. The Chair confirmed that there was no plan to decelerate CHES replacement, and that ASX intended to come back to the Committee in the fourth quarter of this year with a detailed roadmap and engagement to ensure that CHES replacement meets the needs of the market and, in particular, reduces the costs of operation for market users.

The Chair noted that ASX had recently presented to participant organisations on the trading platform replacements scheduled through to November 2016, and that it understood the resource demands that this placed on customers. The timeframes, while slower than some would like, recognised these resource demands.

A Member commented on the benefits of Phase 2 developments for offshore clients. There were no further comments. The Business Committee endorsed the recommendation on implementation of Corporate Actions STP Phase 2 including the indicative timetable with the project due to commence from July 2016.

### **c. Update on T+2 settlement**

The Chair congratulated Miles O'Connor of Citi for his 2015 ACSA Award, which recognised the role that Mr O'Connor had played in market consultation on the move to T+2 settlement in Australia and New Zealand.

ASX's Senior Manager, Clearing Services updated Members on the T+2 settlement project. Since the previous meeting, a number of stakeholder events had been held as outlined in the agenda paper, the Payment Provider Deed was finalised, and that a consultation paper on amendments to the ASX operating rules to accommodate T+2 settlement would be released that afternoon.

The Senior Manager, Clearing Services commented that the recent focus of the project had been on stakeholder readiness for the target launch date, which remained 7 March 2016. The NZ Stock Exchange (NZX) had confirmed its intention to implement T+2 settlement with a target launch date aligned with ASX, and AFMA's intention was that the Australian bond market would also move to T+2 at around the same time.

A Member asked if ASX's target launch date would be delayed if there were delays impacting NZX or the bond market. The Chair responded that ASX was developing a delay scenario analysis outlining the impact of different events on the live date for T+2. The Chair asked Members for their comments on what should be the impact, for example, of NZX delaying its target launch date.

A Member commented that aligned dates were preferred, but an ASX launch ahead of NZX was workable, but not the other way around. Members noted the operational difficulties involved in mis-aligned launch dates, including issues relating to the shunting of stock between Australian and New Zealand registries. ASX's Senior Manager, Clearing Services commented that a working group would be held with registries in coming weeks to discuss shunting and the turn-around times involved.

The Chair asked if there were any comments on possible non-alignment between ASX and the Australian bond market. Members did not comment.

The Chair noted the resource commitments being made by market users on the basis of a 7 March 2016 target launch date means any decision to delay would be taken very seriously. The Chair noted that ASX would take as an action to report back to the Committee with an overview of the delay scenario analysis, and to take Members' input on that at the next meeting. **[Agreed action 2]**

A Member commented on the use of cheques for settlement payment, and the impact on the speed of settlement. Members then discussed different approaches taken by organisations to the use of cheques for payment, including cost recovery and mandating alternative forms of payment. Members asked whether the Business Committee could be used as a forum for advocating or driving change. The Chair noted Members' comments, and acknowledged that while the issue related to the commercial arrangements in place between participants and their clients, ASX would take as an action to consider if there was a role that it could play in facilitating cheque replacement to assist customers in reducing their costs. **[Agreed action 3]**

#### **d. FATCA and Common Reporting Standard**

ASX's General Manager, Clearing Services introduced the topic as outlined in the agenda paper before introducing ASX's Product Manager to discuss it in more detail.

As background, ASX's Product Manager described the FATCA reporting solution that had previously been put in place in the operating rules for the mFund settlement service in consultation with mFund product issuers and participants.

The current proposal related to certain exchange traded products that would be impacted by FATCA reporting requirements from 1 January 2016. Meeting FATCA requirements was more complicated for issuers of exchange traded products than for issuers of mFunds, because of their different and less direct relationship with holders of their products.

The proposed FATCA reporting solution for exchange traded products involved the capturing by participants of information about holders and intended holders of these products, and the storing of that information on each holder's CHESS HIN (holder identification number). For new holders, the proposal assumed that this information could be captured as part of existing KYC/AML processes by participants. For current holders, it would require participants to contact holders to request the information. The stored information would be available to issuers, who would then conduct any necessary follow-up enquiries with holders.

The Product Manager reported that the effectiveness of this proposed solution had been impacted by recent ATO guidance relating to the treatment of 'recalcitrant' holders (those who had failed to provide the necessary information). The Financial Services Council (FSC) and ASX were engaging with the ATO and Treasury in relation to this guidance, which could leave the industry without a common solution to the reporting requirements.

The Chair noted that the proposed solution was dependent on a resolution to the ATO guidance issue, and on the agreement of an acceptable commercial arrangement with issuers and participants. While recognising these risks, ASX was uniquely placed to support a solution for the industry.

Members were invited by the Chair to ask questions.

A Member asked what information would be required from holders. ASX's Product Manager responded that this was information about the account type, and about the tax residency of the holder, including personal identification details. The information requirements were intended to anticipate requirements of the Common Reporting Standard expected to come in 2017/ 2018.

Another Member asked whether the necessary information could be provided directly by holders to issuers, noting that only a very small number of holders should be impacted. ASX's Product Manager responded that this had been considered, but that to ensure that the information was provided to issuers each time the holder bought a relevant product, it was considered that the most efficient mechanism was to store this information on the HIN.

A Member commented that the responsibility was with issuers but the proposed solution appeared to put the responsibility and risk of the solution on participants. The Chair commented that a general solution to the FATCA requirements would not be easy to implement but that ASX's objective was a solution that would enable participants to continue offering their clients these products, and that would include an acceptable set of commercial arrangements. ASX's Product

Manager noted that ASX would begin engaging directly with participants and stakeholder groups on the proposed commercial arrangements in coming weeks. An update would be provided at the August Business Committee meeting. **[Agreed action 4]**

**e. CHES Release 9**

ASX's Product Manager outlined the scope of CHES Release 9, which included the FATCA reporting solution referred to in the previous agenda item, as well as some enhancements for the mFund settlement service.

ASX's General Manager, Clearing Services noted that ASX would advise the market at the end of June if CHES Release 9 would proceed as proposed, or if there were any modifications (which would be detailed in an updated Technology Upgrade Release Notice). **[Agreed action 5]**

**AGENDA ITEM 6: REGULATORY UPDATES**

**a. ESMA Recognition**

ASX's Chief Risk Officer joined the meeting to update the Committee on ESMA recognition.

The Chief Risk Officer reported to the meeting that both ASX Clear and ASX Clear (Futures) now had ESMA recognition. Australia was part of the small group of countries who were the first to receive ESMA recognition. Both clearing houses were now operating on a Cover 2 basis for capital and liquidity purposes. ESMA recognition would keep the risk based capital impost as low as possible for European clearers.

**b. Risk Systems Renewal Process**

ASX's Chief Risk Officer then updated the Committee on ASX's risk system renewal process. The renewal process recognised that current processes of calculating margin requirements overnight and sometimes intraday would be replaced with more sophisticated and near-real time processes. The project would be phased, and each phase preceded by a design study that would engage with and take into account customers' requirements. The objective was a more sophisticated system able to deliver margin offsets and efficiencies that will translate into capital efficiencies for customers as well as a set of risk analytics that will enable customers to better manage their business risks.

The Chair provided further comments on the risk systems renewal process in the context of ASX's broader technology refresh, and then invited questions from Members.

A Member commented that more risk data would be positive, and asked whether the data outlined for phase 5 could be brought forward earlier. The Chair responded that that ASX should continue to engage with the market on the proposed deliverables to ensure that they were delivered to the market in the best sequence.

A Member asked about offsetting between equities, futures and OTC products. The Chief Risk Officer responded that the priority was the optimisation of interest rate products for OTC and futures markets, but in time the objective was to have the capability to offset between any combinations of asset classes.

There were no further questions from Members.

**AGENDA ITEM 7: ADMINISTRATION**

**a. Business Committee membership**

ASX's General Manager, Clearing Services noted that August was the second anniversary of Business Committee meetings being held, and thanked Members for their participation. While there was no requirement to rotate membership periodically, it was recognised that Members may wish to rotate from time to time. ASX would meet bilaterally with Members over coming months to

confirm ongoing participation in the Committee and to seek any nominations for membership, and report back to the August meeting. [Agreed action 6]

The Chair commented that at the same time, ASX would seek feedback on how the Committee was working, and what Members might wish to see working differently.

A Member suggested extending an invitation to the Stockbrokers Association of Australia (SAA) to appoint representatives to attend meetings of the Committee to represent smaller brokers, noting that many members of the Committee are also members of AFMA. The Member noted that both SAA and AFMA are members of the Forum.

The Chair confirmed that ASX will give consideration to the request. There were no further comments or questions from members.

**b. Forward Work Program**

ASX's General Manager, Clearing Services noted the proposed forward work program for the Committee set out in the agenda papers. Members were invited to review the forward work program to ensure that the right topics were included, and with the right priority. Additionally, Members were invited to suggest any topics for roundtable discussion through the Committee meetings. The General Manager of Clearing Services commented that this feedback could be provided through the upcoming bilateral membership discussions.

There were no comments from Members.

**c. Minutes from the 4 March 2015 meeting**

The Chair noted the minutes from the 4 March 2015 meeting and invited comments. As there were no comments, the Chair noted that the minutes were approved.

**d. Next meeting**

The Committee noted that the next meeting will be held on Thursday, 27 August 2015.

As there was no further business discussed, the meeting closed at 2.00pm.

Signed as a correct record of the meeting.



24/6/2015

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Chairman

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Date



## **BUSINESS COMMITTEE REPORT TO THE FORUM**

From the 27 May 2015 Business Committee meeting

At its 27 May 2015 meeting, the Business Committee was updated on:

- the regulatory and legal analysis for a principal to principal (P2P) clearing model;
- Corporate Actions STP Phase 1 with an indicative project roadmap for Phase 2;
- preparations for implementation of a T+2 settlement cycle;
- a proposed solution for Foreign Account Tax Compliance Act (FATCA) requirements impacting tradeable investment products; and
- changes to CHES within CHES Release 9 scheduled for November 2015.

The Business Committee was also provided regulatory updates on ASX Clear ESMA recognition and the roadmap for ASX's Risk Systems Renewal program.

### **Key Recommendations**

The Business Committee recommended that the Forum in turn recommend to the Boards of ASX Clear and ASX Settlement that Corporate Actions STP Phase 2 should:

- deliver an end-to-end STP solution for five further corporate actions in one batch ahead of CHES replacement; and
- proceed on the basis of an indicative timetable anticipated to commence in July 2016 and to take 12 months to delivery.

### **Key Issues Discussed**

- The need to identify whether there is the necessary support for proceeding with the regulatory analysis of P2P or whether this initiative should be de-prioritised.
- The key learnings from Corporate Actions Phase 1 and the updated indicative timetable for Phase 2.
- Stakeholder engagement on readiness for T+2 settlement targeted for launch on 7 March 2016, and the preparedness of the Australian bond market and the New Zealand Exchange for moving to T+2 settlement at or about the same time as ASX.
- The impact of recent ATO guidance on a proposed ASX solution for FATCA requirements impacting tradeable investment products and upcoming consultation on that proposed solution.

### **Agreed Actions**

1. ASX to report to the Business Committee in August on whether there is support for proceeding with the regulatory analysis of P2P or whether this initiative should be de-prioritised.

2. ASX to report to the Business Committee in August on its delay scenario analysis outlining the potential impact of different events on the live date for T+2 and mitigating factors.
3. ASX to consider whether there is a role that it could play in facilitating cheque replacement to assist customers in reducing their costs.
4. ASX to update the Business Committee in August on the proposed solution for FATCA requirements impacting tradeable investment products.
5. ASX to advise the market at the end of June if CHES Release 9 will proceed as proposed, or if there are any modifications.
6. ASX to meet bilaterally with Members to confirm ongoing participation in the Business Committee and to seek any nominations for membership, and report back to the August meeting.