



MINUTES OF THE BUSINESS COMMITTEE  
WEDNESDAY, 4 MARCH 2015  
ASX LIMITED  
LEVEL 1, 20 BRIDGE STREET SYDNEY

- 1. Introduction**
- 2. Consultation process on the Code of Practice**
- 3. Service Performance**
- 4. Management accounts for cash market clearing and settlement**
- 5. Business Matters**
  - a. Admission of foreign ADIs as clearing participants
  - b. Principal-to-principal clearing arrangements
  - c. Introduction of T+2 settlement and a change to the batch settlement cut-off time
  - d. Corporate actions STP
  - e. ASX investment in trading and post-trade services infrastructure
- 6. Regulatory Updates**
  - a. FSS account protections
  - b. Review of HIN sponsorship arrangements
  - c. Update on ASX consultation process on reducing red tape for participants
- 7. Administration**
  - a. Forward work program
  - b. Minutes from the 27 November 2014 meeting
  - c. Other Matters

## ATTENDEES

MEMBERS		
Company	Name	Job Title
ASX	Mr Peter Hiom	Business Committee Chair, ASX Deputy CEO
ABN AMRO Clearing	Mr Barry Parker	Managing Director
APX	Mr David Lawrence	Chief Operating Officer & Company Secretary
Bank of America Merrill Lynch	Mr Anatoly Kirievsky	Head of Compliance
Bell Potter Securities	Mr Dean Surkitt (by phone)	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
Credit Suisse	Mr Andrew Farran	Chief Operating Officer
Deutsche Bank AG	Mr Russell Deal	Chief Operating Officer
Goldman Sachs	Ms Yen Le	Head of Australia & New Zealand Settlements
HSBC	Mr Robert Brown	Head of Client Management, HSBC Securities Services
J.P. Morgan	Mr Samuel Mann (by phone)	Business Manager, Australia Equities
Macquarie Group	Mr Michael McKeown	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	Ms Jane Irwin (by phone)	Head of Operations
Pershing Securities	Mr Rob Forbes	Chief Executive Officer
UBS	Mr Conor Foley	Chief Operating Officer

### ASX Management

Name	Job Title
Ms Amanda Harkness	Group General Counsel & Company Secretary
Mr Tim Hogben	Group Executive, Operations
Mr Ramy Aziz (Item 4)	Chief Financial Officer
Ms Danielle Henderson	General Manager, Clearing Services
Mr Andrew White	General Manager, Settlement Services
Mr Marcin Firek	General Manager, Company Secretariat
Mr Brendon Luscombe (Item 6a)	General Manager, Clearing Risk Management
Ms Diane Lewis	Senior Manager, Regulatory and Public Policy
Mr Rodd Kingham	Senior Manager, Clearing Services
Mr Con Korkofigas (Item 5b)	Legal Counsel and Senior Manager

### ASX Compliance Management

Name	Job Title
Ms Fiona Hooymans (Items 6b & 6c)	General Manager, Participants Compliance

## APOLOGIES

MEMBERS		
Company	Name	Job Title
BBY Ltd	Mr Arun Mahraj	Chief Executive Officer
Goldman Sachs	Mr Greg Hanlon	Head of Operations
HSBC	Mr Andrew Bastow	Head of Securities Services
Morgans	Mr Peter Chisholm	Chief Operating Officer
Morgans	Mr Brad Yates	Senior Manager, Operations
Patersons Securities	Mr Sam Budiselik	Chief Operating Officer

The Chair formally opened the meeting at 12.10pm. Some of the agenda items were considered out of order. For convenience, they are recorded in the order set out in the Agenda. 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 Committee noted that Barry Parker would be taking up a new role within ABN AMRO and this would be his last meeting. The Chair acknowledged his contribution to the Committee.

### **AGENDA ITEM 2: CONSULTATION ON CODE OF PRACTICE**

The Committee noted the report on the consultation process on the Code of Practice set out in the agenda paper. The Chair thanked those organisations that had made submissions to the ASX consultation process on the proposed operational improvements to the Code of Practice.

The Chair noted the recent announcement that the Council of Financial Regulators (CFR) would conduct a review of competition in the clearing of Australian cash equities. Submissions to the CFR review were due by 27 March 2015. ASX encouraged Members to make submissions. ASX's submission would put forward a proposal for a 5-year extension of the moratorium on clearing competition and the Code of Practice.

The Chair invited questions or comments from Members. None were raised.

### **AGENDA ITEM 3: 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 September 2014 and December 2014.

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

- CHES and TAS system availability was 100% for both quarters.
- Netting efficiency volume and value remained consistent for both quarters.
- There was an unusually higher number of ASX trades rejected during the December quarter. These primarily related to one participant and reporting of underlying trades supporting ETO exercises. The issue was resolved intra-day and the trades were reported to the market.
- Average settlement failure rates were consistent with previous quarters at 0.37%.
- mFund settlement transactions increased from 66 to 189 in the December quarter. Value increased from \$1 million to \$6 million over the period.

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

- The Medibank IPO deferred settlement was satisfactorily managed, with very low failure rates.
- Settlement metrics on the day of the 15 December 2014 Sydney siege were consistent with average timeframes. All margins were paid on time. One participant evacuated their premises during the siege and utilised their fall-back procedures for authorisation of payments. A number of discussions with participants and customers had taken place following the incident. ASX's Group Executive, Operations invited Members to raise any questions about how the incident was handled. There were no questions.
- On 22 December 2014, an unsolicited SPAM email containing malware and purporting to be from CHES was circulated widely. An internal review confirmed that CHES and ASX systems were not the source. A similar email previously targeted Australia Post customers.

The Chair noted that ASX had elevated its focus on physical and cyber-security by assigning responsibility for those matters to a new General Manager-level position reporting to the Chief Information Officer. ASX's Group Executive, Operations noted that ASX worked extensively with the RBA to implement best practice prevention and response to physical and cyber security measures.

The Chair invited questions on the report and none were raised.

#### **AGENDA ITEM 4: MANAGEMENT ACCOUNTS FOR CASH MARKET CLEARING AND SETTLEMENT**

ASX's CFO spoke to the management income statements for cash market clearing and settlement for the 6 months to 31 December 2014, noting that:

- The statements had been prepared and presented on a consistent basis to prior periods.
- The cash market clearing management income statement was based on a 'Cover 2' capital standard for the entire period. Prior year information based on the 'Cover 2' capital standard had been restated for comparability. The change slightly reduced the amount of default capital allocated to cash equities clearing (relative to clearing ETO products) and slightly increased liquidity requirements.
- The profitability of both cash market clearing and settlement increased slightly in the period. Expense growth was lower than the rest of ASX. ROE was comparable with the prior period.

The Chair asked the CFO to quantify the extent of the change in the default capital allocation. The CFO advised that the change was less than \$5 million.

There were no questions from Members to the CFO.

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

##### **a. Admission of foreign ADIs as clearing participants**

The Committee noted the report on admission of foreign ADIs as clearing participants, set out in the agenda paper. ASX's General Manager of Clearing Services spoke to the agenda paper, noting that ASX would shortly implement changes which may facilitate ASX Clear exempting some foreign ADIs or foreign subsidiary ADIs from the risk based capital requirements under the ASX Clear Operating Rules. ASX would consider applications from foreign participants to transition existing ASX Clear membership arrangements to entities which were already members of ASX Clear Futures. Members wishing to investigate their clearing membership arrangements further should contact ASX. Members should consider changes in the context of their overall regulatory, licencing and technology parameters.

A Member noted his organisation's support and appreciation that this change is being facilitated by ASX. Members also noted that APRA may need to be consulted on these changes in the broader regulatory context. The Chair noted that ASX was willing to assist participants in their discussions with APRA on any regulatory impediments to them becoming members of ASX Clear. **[Agreed Action 1]**

The Chair noted that ASX was planning to bring forward a number of other similar initiatives to the Committee that are aimed at CCP harmonisation and simplification to deliver cost savings for the industry.

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

ASX's General Manager, Clearing Services updated the Committee on the work of the working group examining principle to principle clearing arrangements (P2P). The working group had developed a high level operating model for P2P. A legal sub-working group was being formed to undertake a regulatory and legal analysis of the proposed operating model as a basis for joint ASX and industry discussions with ASIC. Additional representation and assistance from interested

participants for this sub-group was requested for this work to be progressed. Subject to the completion of the regulatory and legal analysis, representatives of the working group were planning to discuss a proposal with ASIC in mid-May.

The Chair encouraged Members to provide input to the working groups.

### **c. Introduction of T+2 settlement and a change to the batch settlement cut-off time**

The Chair noted that a Member had requested that ASX consider whether the later batch cut-off time endorsed at the last Committee meeting could be implemented ahead of T+2.

ASX's Senior Manager of Clearing Services updated the Committee on the considerations and stakeholder feedback in relation to the feasibility of implementing the later (11.30am) batch settlement cut-off time ahead of T+2 implementation. Based on the feedback received, ASX proposed to proceed with the implementation of the change to the batch settlement cut-off time and T+2 settlement cycle together in March 2016. The Committee did not object to this proposal.

Members discussed the timing of the proposed changes, including:

- The timing of ASX's recently announcement trading platform upgrade given the existing workload to implement T+2 settlement by March 2016. The Chair advised that ASX would engage with customers to understand the interplay of implementing T+2 settlement and the new trading platforms. No timing decision had been made with respect to the implementation of the new trading platforms. ASX would implement the changes in a way that worked for the market.
- Whether the NZ Stock Exchange (NZX) would implement T+2 settlement concurrently with ASX. The Chair advised that appeared likely. ASX was working with NZX as well as engaging with relevant market stakeholders facilitating the transition of the fixed interest market to T+2.

ASX's Senior Manager, Clearing Services outlined current progress and next steps for T+2 project implementation. ASX was also attending the first AFMA steering committee for debt market T+2 implementation. Member feedback was that it would be desirable for the debt markets to transition to T+2 settlement in alignment with the cash market.

A Member inquired about the potential for a reduction to the default fund following implementation of T+2 settlement. The Chair responded that ASX Clear's move to compliance with the 'Cover 2' capital standard likely meant that this would not occur. ASX would continue to review and discuss this with the RBA.

### **d. Corporate actions STP**

ASX's General Manager, Settlement Services updated the Committee on implementation of Phase 1 of the Corporate Action STP project. To date, approximately 28% of relevant corporate actions have used the new STP corporate actions forms during the non-mandatory period. ASX has been liaising with issuers about the usability and efficacy of the new forms. A number of Members were also testing the output and providing feedback. ASX welcomed feedback on the operation of the new forms before making their use mandatory. One Member commented the service was working well and the non-mandatory period had allowed testing of the service.

ASX's General Manager, Settlement Services noted the last Committee meeting had discussed options for a Phase 2 of the Corporate Actions STP project. Member feedback was that the priority for Phase 2 was to automate 5 additional corporate actions. This would increase the volume of automated actions to 80%. Automation of the feedback loop on existing STP corporate actions should be considered in the context of CHES replacement.

The Chair invited comments from Members on whether automation of the additional corporate actions should be implemented concurrently or incrementally. ASX's General Manager, Settlement Services noted that implementation of the additional corporate actions could take up to 18 months

to implement. Members agreed that providing an STP solution for all of the identified Phase 2 corporate actions concurrently was the preferred option.

A Member noted that there were a number of issues and lessons learned from the implementation of Phase 1, which needed to be taken into account in Phase 2. Members agreed that phase 1 becoming mandatory was subject to no material issues being identified.

The Chair noted that ASX would present an indicative timetable for Phase 2 of the STP corporate actions project and the lessons learned from Phase 1 at the next meeting. **[Agreed Action 2]**

#### **e. ASX investment in trading and post-trade services infrastructure**

ASX's Deputy CEO noted ASX's media announcement regarding the proposed upgrade of its trading and post-trade platforms over the next three to four years. ASX's Deputy CEO also outlined the rationale for ASX's investment plans, the timetable for the changes to ASX's trading platforms, risk management and market monitoring systems in phase 1 of the project, and the potential upgrades to cash market clearing and central securities depository services in phase 2 of the project. ASX would engage with customers and stakeholders over the next 12 months to understand customer preferences for phase 2 of the project. This would allow ASX to understand the environment in which it would be making its investments following the review of clearing competition by CFR and the subsequent decision by Government. ASX had identified a number of opportunities for phase 2 of the project which could deliver cost savings and efficiencies to participants.

Members provided comments and asked questions about the proposed upgrade, including:

- Whether the existing technology underpinning the CHES platform can continue to be used for a further three years. The Deputy CEO advised there was no immediate problem with continuing to use the technology up until mid-2019.
- One Member noted that whilst CHES replacement would be difficult, it would provide significant opportunities to deliver material efficiencies and cost savings for participants.
- The impact of a Government decision to allow competition in cash market clearing. The meeting noted and discussed a number of potential issues and implications of such a decision, including ASX reconsidering the timing and scope of investment in its cash equity post-trade infrastructure.

### **AGENDA ITEM 6: REGULATORY UPDATES**

#### **a. FSS account protections**

ASX's General Manager of Clearing Risk Management informed the Committee about the implementation of FSS account protections in the May 2015 CHES release, including that:

- ASX rules that were introduced in April 2014 clarified that stock held in a broker's accumulation account was beneficially owned by the client. However, a market practice of transferring stock into a broker's settlement account one day prior to settlement meant the client was exposed for a 23 hour window and could lose the stock if the broker defaulted after 4pm on T+2 up until 3pm on T+3.
- The CHES changes would provide additional protection to retail clients by allowing brokers to prime stock at the client level and send a scheduled CHES message detailing the funds to be deposited into the broker's trust bank account on behalf of their client. The movement of stock and the transfer of funds to the broker's trust bank account would occur as directed on the CHES message during batch processing. Broker sponsored purchases would also be allowed into batch processing which would allow the broker to withdraw funds held in the broker's trust bank account for 'broker sponsored' purchases, and thereby reducing the liquidity impact.

- Most system vendors were or would shortly be accredited for the new messages and were in the process of providing their software to brokers. Management expected the majority of accreditations to be completed by the end of March. This would provide participants time to finalise and implement any necessary internal process changes. ASX had been working with participants on the changes to their internal processes to provide for a smooth transition and is confident that the industry is well placed for the CHES release to go live on 4 May 2015 as scheduled.
- Draft Rules had been published a few weeks ago and ASX was actively communicating with customers via regular circulars and discussions with individual participants about the new account protections.

The Chair invited questions and none were raised.

#### **b. Review of HIN sponsorship arrangements**

ASX Compliance's General Manager of Participants Compliance informed the Committee about the key findings of a review of HIN sponsorship arrangements. The focus of the review was to understand how participants were managing processes associated with the establishment and ongoing maintenance of sponsored holders and their holdings in CHES, and identify any opportunities to improve efficiency and provide clarification regarding the requirements. The findings from the review include:

- Participant feedback on the existing sponsorship framework was that it was clear, effective and adequate.
- Participants had solid frameworks in place to comply with applicable obligations.
- The review identified a number of different participant approaches to client on-boarding, sponsorship applications, internal reviews and sponsorship reviews.
- ASX Compliance identified that greater efficiency could be provided by clarifying that the existing framework does not place any restrictions on the number of HINs that can be applied to a single sponsorship arrangement, and that it does not require a participant to notify a client of the termination of a HIN (that is, notification is required when the sponsorship agreement is terminated). It also identified an opportunity to reduce notification obligations for mandatory agreement changes in circumstances where there is an inactive HIN.

There were no questions from Members about the review.

#### **c. Update on ASX consultation process on reducing red tape for participants**

ASX Compliance's General Manager of Participants Compliance provided an update regarding ASX's consultation to reduce unnecessary compliance for participants:

- There was overwhelming support to the consultation process. A number of additional changes were identified during the consultation process, which were included in a follow-up consultation paper released on 16 February 2015. ASX Compliance intends to implement the changes with effect on 1 June 2015 (subject to regulatory approval).
- The Outsourcing and Offshoring Guidance Note has been finalised and will take effect from 1 June 2015. Following feedback from the Committee at the last meeting, existing participants will be provided with a transitional period of up to 1 January 2016 for their existing outsourcing and offshoring arrangements to comply. This was to allow participants time to review, and possibly update, their existing arrangements.
- ASX was consulting on the admission requirements for ASX Clear and ASX Settlement. The guidance has been drafted to allow participants flexibility to determine what resources and processes were required to comply with the Rules, taking into account the nature of their

business and general guidance on ASX Compliance's expectations. The guidance would take effect on 1 June 2015. Existing participants will have until 1 January 2016 to comply.

There were no questions from Members about the agenda item.

## **AGENDA ITEM 7: ADMINISTRATION**

### **a. Forward Work Program**

ASX's General Manager of Clearing Services noted the proposed forward work program for the Committee set out in the agenda papers.

The Chair invited Members to comment on the forward work program. One Member inquired about ASX's plans for intra-day cash market margining and whether there would be an ability for participants to pass this on to the underlying clients. The Chair noted that regulatory changes were informing consideration of intra-day margining. It was agreed that ASX's Chief Risk Officer would update the Committee on the FSS changes and the implications for intra-day margining at the next meeting. **[Agreed Action 3]**

No further comments were provided.

### **b. Minutes from the 27 November 2014 meeting**

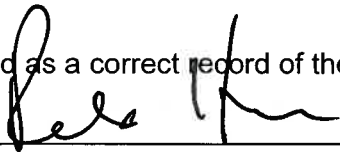
The Chair noted the minutes from the 27 November 2014 meeting and invited comments. As there were no comments, the Chair noted that the minutes were approved.

### **c. Next meeting**

The Committee noted that the next meeting will be held on Wednesday, 27 May 2015.

As there was no further business discussed, the meeting closed at 1.40pm.

Signed as a correct record of the meeting.



Chairman

23/4/2015

Date