

Business Committee Report to the Boards of ASX Clear and ASX Settlement

Business Committee Meeting

At its 6 October 2021 meeting, the Business Committee was updated on:

- key themes and outcomes from meetings with committee members regarding the operation of the Committee;
- the operating performance of CHES for the September quarter 2021;
- the CHES replacement project, including updates on project progress, consultation on the tranche 3 and combined operating rule amendments, access pricing and industry test environment (ITE) 1 readiness;
- the electronic CHES holding statements project; and
- two recent regulatory expectations reports – the annual report on cash equities clearing and settlement services developments, and the report prepared by an external auditor on ASX's compliance with the Regulatory Expectations for cash equity clearing and settlement services, including agreed actions.

KEY ISSUES DISCUSSED

ASX summarised feedback from 12 meetings with committee members regarding the operation of the Committee, including themes around the composition and changing aspects of the Committee, meeting agendas and duration, meeting materials and presentations, as well as meeting etiquette. ASX noted its intentions to accommodate the feedback received, including more forward looking information and encouraging interactive dialogue and input from members.

There were a number of questions around CHES replacement data migration, with members noting their own experiences in this space, and demonstrating a willingness to share their experiences and provide input into ASX's planning. Members also provided updates on their vendors' readiness, with interest in levels of development in CDE as well as to better understand what performance testing would look like in ITE1.

Other questions included whether IBM's review of the recommendations following the ASX trade outage had any implications for the CHES replacement go-live timeline, how references to CHES in the *Corporations Act 2001 (Cth)* would be handled as part of the operating rule amendments, and when ASX would release the pricing information for electronic CHES holding statements.

AGREED ACTIONS

Updates on the four actions raised at the last meeting were provided, with two action items closed and two action items remaining open. One action was assigned to a member at the October meeting – GIA agreed to share their insights and experiences from their recent data migration and cutover activities as potential learnings for the CHES replacement project.

Minutes from the meeting are attached.

Agenda

Business Committee

Date	6 October 2021	Time	12:00pm – 2:00pm
Location	By teleconference		
1. Minutes and Actions			12:00pm-12:30pm
a) Minutes from the 14 July 2021 Business Committee Meeting			
b) Open actions			
c) Key themes and outcomes from meetings with committee members			
2. Service Performance			12:30pm-12:45pm
a) Cash Market Clearing and Settlement - Operating Performance			
3. CHES Replacement			12:45pm-1:25pm
a) Project progress update			
b) Consultation on Tranche 3 and combined operating rule amendments			
c) Access pricing update			
d) ITE1 readiness			
4. Service Enhancements			1:25pm-1:35pm
a) Electronic CHES holding statements			
5. Regulatory Expectations			1:35pm-1:50pm
a) Report on cash equities clearing and settlement services developments			
b) External audit of ASX's compliance with the regulatory expectations			
6. Closing			1:50pm-2:00pm
a) Forward work program			
b) Other matters			
c) Next meeting - 8 December 2021			

Business Committee Members

Company	Name	Job Title	Apologies
ABN AMRO Clearing	Barry Parker	Chief Executive Officer	
AFMA	Damian Jeffree	Senior Director of Policy	
ASX	Val Mathews	Business Committee Chair and Chief Customer and Operating Officer	
ASX	Helen Lofthouse	Group Executive, Markets	
AIRA	Ian Matheson	Chief Executive Officer	
ACSA	David Travers*	Chief Executive Officer designate	Rob Brown (Chief Executive Officer)
ASA	Fiona Balzer	Policy & Advocacy Manager	
AUSIEX	Mat Tilley	Head of Markets & Client Solutions	Apology
BAML	Stephen Hacker	Director, Head of Operations	
Bell Potter Securities	Robert Tesoriero	Settlements Manager	
BNP Paribas	Mark Wootton	Head of Custody Product Aust & NZ	
BoardRoom	Martin Jones	General Manager Corporate Governance & Director	
Chi-X Australia	Mike Aikins	Chief Operating Officer	
Citi	Lyall Herron	Program Manager	
CMC	Andrew Rogers	Director of Broking Business	
CBA (CommSec)	Sheridan Thompson	Head of Industry Engagement & Process Improvement	
Credit Suisse	Winston Loke	Australian Equities COO	
Goldman Sachs	Yen Le	Executive Director	
GIA	Megan Motto	Chief Executive Officer	
HSBC	Nichole Alexander	Manager, Aust Market Advocacy & Development	
J.P. Morgan	Jonathan Evans	Head of Custody & Markets Operations	
Link Market Services	Peter Jackson	Chief Operating Officer	
Macquarie Group	James Indge	Cash Equities Business Manager	
Morgan Stanley	Rebecca Hill	Chief Operating Officer	
Morgans	Daniel Spokes	Director, Client Support Services	
NAB	Anita Mead	Head of Business Management, Self-Directed Wealth	
NSX	Chan Arambewela	Chief Operating Officer	
Pershing Securities	Leigh Conder	Chief Operating Officer	
SAFAA	Judith Fox	Chief Executive Officer	
Sydney Stock Exchange	Antony Tolfts	Listings Director	
UBS	Scott Hanlon	Head of Operations, Executive Director	

* Delegate

ASX Management

Name	Job Title	Apologies
Tim Hogben	Group Executive, Securities and Payments	
Daniel Moran	General Counsel	Apology
Hamish Treleaven	Chief Risk Officer	
Dan Chesterman	Group Executive, Technology and Data, and CIO	
Sally Palmer	Deputy General Counsel	
Katie McDermott	General Manager, Equity Post Trade, Securities and Payments	
Diane Lewis	General Manager, Head of Regulatory Affairs	
Andrew Jones	General Manager, Issuer Services, Securities and Payments	
Suzy Munro	General Manager, Clearing and Settlement Operations	
Karen Webb	Senior Manager, Equity Post Trade, Securities and Payments	
Keith Purdie	Senior Manager, Equity Post Trade, Securities and Payments	
Con Korkofigas	Senior Legal Counsel and Senior Manager	

Observers

Name	Job Title	Apologies
Nathan Bourne	Senior Executive Leader, Market Infrastructure (ASIC)	
Dodie Green	Senior Manager, Market Infrastructure, (ASIC)	

AGENDA ITEM 1: MINUTES AND ACTIONS

The Chair welcomed members and delegates to the meeting, held using Microsoft Teams with videoconference technology.

The Chair noted two recent membership changes effective for the meeting; Damian Jeffree was welcomed as the new member for AFMA, replacing David Lynch, as well as Scott Hanlon from UBS, replacing Conor Foley.

One member was represented by a delegate, David Travers (for ACSA). Mat Tilley (AUSIEX) was noted as an apology with no delegate, as was Daniel Moran from ASX. ASIC representatives (Nathan Bourne, and Dodie Green) attended the meeting as observers.

The agenda papers and presentation materials were distributed to all members in advance of the meeting.

a) Minutes from 14 July 2021 Business Committee Meeting

The Chair noted that ASX had only received one comment, to amend a title for a member, which had been amended. The minutes of the 14 July 2021 meeting were approved without any further changes.

b) Open actions

With regard to the four open actions raised at the last meeting, the following updates were provided:

- Action: Given the CHESB batch settlement delay on 4 May 2021, ASX to confirm CHESB replacement will continue to segregate mFund obligations (including payments) from the settlement of cash equities in the CHESB batch.

The ASX Group Executive, Securities and Payments noted consultation in 2019 regarding segregating mFund settlements (mainly payments) from the 11.30am batch, but market feedback indicated a preference to retain mFund within the batch (while retaining segregation of mFund payments within the batch to go through separate payment providers/payment facilities to equity settlements), to avoid contagion in the event of an issue with mFund settlements. A slight time delay could occur, which ASX scenario tests and monitors. The trade-offs/risks of doing it this way were discussed, and the Chair closed the action.

- Action: ASX to provide further background on the cause for a delay to ASX 24 payments on 4 May 2021, including whether there was a link to the CHESB batch settlement delay on the same day.

The ASX Group Executive, Markets, noted ASX's existing operational process whereby a delay to ASX 24 payments occurs when there is a delay to the conclusion of the CHESB batch. The ASX Group Executive, Markets, noted that ASX was working to refine that process to differentiate circumstances, as the delay is only appropriate in some cases. The Chair noted the action would remain open until ASX had finalised the change of process.

- Action: ASX to consider how to engage with participants regarding analysis on the increase in settlement fail rates.

The ASX Group Executive, Securities and Payments noted ASX's analysis pointed to five participants generating around 48% of the fails (with the remaining 52% from the rest of the market) over the past 30 months. As a next step, ASX would engage those five participants to better understand the cause and how their fail rates could be reduced. The Chair closed the action.

- Action: ASX to engage bilaterally with a member regarding their objection to the presentation format of company logos on the proposed electronic CHESB holding statements.

The ASX General Manager, Issuer Services, Securities and Payments, advised that discussion was on-going with the AMO member, regarding a redesigned footer of the statement. The member noted they had been liaising directly with ASX's Head of Enterprise Compliance on the matter, and that the member was happy for regulators to be involved in the discussions, if required. The Chair noted ongoing discussions and the action would remain open until these had been finalised.

The Chair noted a question from a member outside of the last meeting, asking when ASX would next report on international price benchmarking. The Chair advised that ASX was engaging with the ACCC over the next seven months on clearing and settlement fees for CHES replacement, and ASX would update the Committee once that exercise was completed. The Chair also noted ASX's previous guidance that it would not increase fees for like-for-like clearing and settlement services.

c) Key themes and outcomes from meetings with committee members

The Chair thanked the 12 members they met with in August, and extended the invitation again to any further members who wished to discuss the operation of the Committee. The Chair summarised four main themes that came out of the meetings, and characterised the feedback as supportive and positive, with some opportunities for improvement noted.

The first theme was the composition and changing aspects of the Committee, with some noting the size had continued to grow, and a dilution of clearing and settlement expertise via the broadening membership of the committee, leading to some members relying on bilateral engagement outside of the Committee. Members also noted the breadth of agenda topics had possibly contributed to less conversational flow and changed the dynamic/tone of the meeting, with members seeing an opportunity for the Chair to facilitate more engagement and questions throughout the meeting. There was some uncertainty around ASX's process for selecting and rotating membership, which the Chair acknowledged was to contain the size of the meeting, but that this was an area ASX would provide enhanced clarity on in the future.

The second theme related to the meeting agenda and duration, with members generally supportive of the two hour quarterly meeting frequency. There was strong support for ensuring the agenda of the Committee was forward looking and focused on strategic development, including what members need to plan for, with suggestions for more member-led agenda items rather than an ASX-driven agenda, which was supported by the Chair. There were mixed views on the appropriateness of the agenda being weighted towards CHES replacement, with some finding the content too technical, but also recognising the diverse membership of the Committee. Suggestions for other topics of interest included cybercrime, 2AM margining and aspects of the distributed ledger. There was also support for more healthy debate and dialogue.

The third theme related to meeting materials and presentations, with some repetition noted between the papers and the content delivered during the meeting. Going forward, the Chair noted that the papers would be taken as read, with more time devoted in the meetings to member feedback and questions. Condensed materials and executive summaries were also requested, which the Chair also noted had been taken on board. There was a desire to better understand the market preparedness for CHES replacement, with a lens to the future and what it means for the customers. It was also suggested that Business Committee members could also present appropriate topics.

The fourth theme related to meeting etiquette. Members noted the larger size could make it harder at times to have a conversation, and that historically difficult conversations had been shut down by ASX, making members less inclined to ask questions, which the Chair noted ASX would actively encourage, including questions in advance. Overall members found the sharing of information via the Committee very valuable.

The Chair extended an invitation for further discussion, either during the meeting or outside of the meeting. Members did not raise any questions in respect of the update. One member accepted the invitation for a follow up meeting.

AGENDA ITEM 2: SERVICE PERFORMANCE

a) Cash Market Clearing and Settlement - Operating Performance

The ASX General Manager, Clearing and Settlement Operations provided an update on the operating performance of the cash market clearing and settlement services for the September 2021 quarter (covering July and August):

- System availability for CHES, Trade Acceptance Service and Settlement Facilitation Service were all at 100% for the quarter.
- Fail rates were stable at around 0.25%, with a few days during July and August below 0.1%. Spikes are generally caused by two reasons – unilateral fails where the fail is wholly within a settlement member, or where there is a

corporate action event with netting turned off. Over the quarter there were several corporate actions events for which netting was turned off, and these would be reported in future meeting materials.

- Volumes and value of trades had picked up in the September quarter, after dropping off a bit in the June quarter, largely due to reporting season with the elevated activity and related market volatility.
- Netting efficiency in value and volume terms remained steady.
- The average daily value of transactions settling in CHES reached a high of \$12 billion during the September quarter.

Members did not raise any questions in respect of the update.

AGENDA ITEM 3: CHES REPLACEMENT

a) Project progress update

The ASX General Manager, Equity Post Trade, Securities and Payments summarised a number of key achievements, including:

- The final release of software code, referred to as CDE 10, to the market on 27 September 2021. All functional workflows had now been delivered in the customer development environment, including the redesign of netting and settlement workflows, and the new functionality for DRP and BSP.
- On the stakeholder engagement front, the AMO working group and new Software Provider Readiness working group were noted as being interactive and engaging forums. ASX also co-hosted a joint client session with Link Market Services, targeting company secretaries to provide updates on the benefits and related changes for issuers, electronic CHES holding statements, corporate actions STP, DLT Solutions and market trends and insights.
- Regarding documentation, an information sheet on system access pricing was published, and also shared with all Committee members. In relation to the documentation for industry testing, ASX had updated connectivity guides, completed all scripts for messaging accreditation, published a guide to testing services, and a guide for fail over and recovery. ASX would publish an accreditation guide at the end of November 2021, and operational readiness scenarios by the end of December 2021.

The ASX General Manager, Equity Post Trade, Securities and Payments noted IBM's review of the recommendations following the ASX trade outage, and advised that ASX was completing an assessment against the CHES replacement program. An update on the outcomes of that assessment would be presented to the Committee at the next meeting.

Regarding the IBM review, and the assessment and readiness activity, a member asked if this would potentially impact the overall delivery timeline. The ASX Group Executive, Securities and Payments noted ASX's self-assessment against the recommendations of the review for the CHES replacement project was still on-going (and would also be supplemented by a third party review), but at this point there was no expectation of an impact to the go-live timeline for CHES replacement given the existing governance and assurance program.

b) Consultation on Tranche 3 and combined operating rule amendments

Referring to a presentation shared during the meeting, the ASX Senior Legal Counsel and Senior Manager provided an overview of the tranche 3 and consolidated rule amendments released for consultation on 31 August 2021. The overview recapped on the 4 year journey to the release of the consultation package on 31 August 2021 – including the reasons why ASX needed to amend its operating rules; the interaction between the solution design processes for the new system and the rule amendments, and the focus of the feedback sought through the rules consultation; and a brief overview of the prior tranche 1 and tranche 2 consultations. The ASX Senior Legal Counsel and Senior Manager then outlined some of the key tranche 3 rule amendments, as well as an overview of the documents which make up the consultation package, an overview of the explanatory information provided to assist stakeholders, and how to navigate its contents. Next steps were also outlined, noting the request for written feedback by 14 December 2021, which allows for a 15 week consultation period. ASX intends to provide its response to consultation feedback to the regulatory agencies in April 2022, ahead of public release in early June 2022. Subject to regulatory clearance processes, formal lodgement of the consolidated rules package with ASIC is planned for early September 2022, with the final complete rule amendments planned to be published later in September 2022.

A member asked how ASX was dealing with references to CHES in the *Corporations Act 2001 (Cth)*. The ASX Senior Legal Counsel and Senior Manager noted that the relevant part of the *Corporations Act 2001 (Cth)* deals with supporting post-trade activities and the settlement of securities and transfers through CHES, and would continue to support the new system. Protections for clearing and settlement under the *Payment Systems and Netting Act 1998 (Cth)* were also noted to continue to be in place under the new system.

c) Access pricing update

Referring to a presentation slide shared during the meeting, the ASX General Manager, Issuer Services, Securities and Payments advised that ASX had issued an information sheet on access pricing, and summarised the key details.

Members did not raise any questions in respect of the update.

d) ITE1 readiness

Referring to a presentation shared during the meeting, the ASX General Manager, Equity Post Trade, Securities and Payments spoke to the various environments already in place, and forthcoming through to April 2023, with an emphasis on the ITE1 environment, a progression from the Customer Development Environment (CDE) with an increased number of integration points, and all access channels (AMQP, SWIFT, Ledger API, FIX and CHES UI), as well as increased functional and non-functional features. The dataset would also be larger than CDE, moving away from individual sandbox environments to expanded datasets to facilitate system testing by software providers in preparation for accreditation.

The ASX General Manager, Equity Post Trade, Securities and Payments then outlined what ITE1 would deliver, in terms of security and privacy; stability; business capabilities and access; performance; resilience; maintainability; and client test tools.

A member noted their organisation's (GIA's) own recent large data migration (which involved three successful dress rehearsals and took six rather than the four-planned days), and asked about potential vulnerabilities over the cut-over weekend in April 2023, and any tolerance for it taking longer than the assumed planned four days. The member was interested in details such as decision gates for rollback versus push forward, disaster recovery and planning, as well as communication to the market throughout the process. The ASX General Manager, Equity Post Trade, Securities and Payments agreed that ASX's planning and documentation needed to capture the types of scenarios and content the member outlined, and confirmed that at least one market dress rehearsal would include a rollback scenario. ASX's documentation would also address the timeframe over the cutover weekend, including the point at which a rollback decision would be made, and it would also provide detail after a final rollback decision was made, on what recovery would look like from a roll-forward perspective. The ASX Group Executive, Securities and Payments noted that GIA's recent experiences around data migration would be of interest and value to ASX, as had similar insights from Computershare, and asked the member to share their insights/experiences with ASX.

Another member requested involvement in the contingency planning for the migration weekend, ideally while documentation was in draft form rather than finalised, to allow for input into the planning. The ASX Senior Manager, Equity Post Trade, Securities and Payments noted that ASX would host targeted Focus Group meetings on this topic prior to the release of the documentation, to gain insights and opinions from the market.

A member noted feedback from their vendor that from April/May 2022 there is a lot of testing, requiring multiple environments for participants, and requested the documentation as soon as possible to ensure they will be ready. The vendor had noted finite testing resources in the data migration space, and that the second half of 2022 would be tight with overlapping testing taking place. The ASX General Manager, Equity Post Trade, Securities and Payments acknowledged this feedback, and noted that ASX was conscious of limiting the amount of parallel testing required across different environments.

A member asked whether ASX was monitoring and aware of participants who might be lagging in their development in CDE. The ASX General Manager, Equity Post Trade, Securities and Payments confirmed that ASX was tracking activity in CDE, and engaging with CHES users. At this stage ASX was comfortable with where everyone is at, but this would become an area of increased focus for ASX going forward.

Regarding performance in ITE1, a member asked if this captured volume testing or a vendor testing their connectivity with ASX. The ASX General Manager, Equity Post Trade, Securities and Payments confirmed that from a performance perspective, ASX needed to manage cumulative volumes across the market across all processes for the clearing and settlement facility. For ITE1 specifically, ASX's focus was on software providers, and ensuring the environment has the capability to facilitate the volumes they need to meet testing performance thresholds relevant for their business. The member also provided an update from their vendor, with regards to their progress, noting they expected to finish cutting code by the end of the year, but would not provide a copy to the member until May 2022, with the member noting it would be a tight turnaround for their own build after receiving the code in May 2022.

To conclude, the Chair noted the concurrency of CHES replacement with another ASX initiative to replace the current Signal B service. ASX had announced earlier in the year that it would replace the current Signal B protocol with an industry standard FIX interface in March 2022. This had generated feedback from the market and resulted in a technology forum being facilitated by AFMA. In response to market feedback, ASX will introduce a production parallel run from April to June 2022, for participants and software providers who consume the Signal B service, to provide additional test time for any who have not completed their readiness by March 2022. The Chair noted that ASX was working to develop an improved and more proactive change timetable, in recognition of the importance of early and transparent communication to customers. The AFMA member acknowledged ASX's response to the market feedback on this matter, which was gratefully received by its members.

AGENDA ITEM 4: SERVICE ENHANCEMENTS

a) Electronic CHES holding statements

The ASX General Manager, Issuer Services, Securities and Payments confirmed that go-live was on-track for December 2021. A technical fact sheet was issued to the market to provide an overview of the process, with particular emphasis on the participant side including how to ensure participants get the fee waiver for putting emails into the system. The ASX General Manager, Issuer Services, Securities and Payments had been contacted by a number of participants, and had over a dozen calls with participants to discuss, with the general feedback characterised as very positive. Most participants, particularly the larger participants, had indicated they would start work on this in early 2022, acknowledging that there is a small amount of work required, to start offering electronic statements from Q1 or Q2 2022. Some smaller participants had indicated they would be going live in December 2021.

ASX had reached out to around 2,500 issuers, to give them the opportunity to update their logos for the new design of the statement, as well as providing the opportunity for the logos to be displayed in colour. Almost half of the issuers had responded with updated logos, with many others confirming they were happy with their existing logo. The new statement design would go-live for electronic statements in December 2021, and print statements would follow sometime in Q1 2022.

A member asked when ASX would release the pricing information for electronic statements. The ASX General Manager, Issuer Services, Securities and Payments confirmed this was targeted for October/November 2021 (at least one month before go-live).

AGENDA ITEM 5: REGULATORY EXPECTATIONS

a) Report on cash equities clearing and settlement services developments

The ASX Senior Manager, Equity Post Trade, Securities and Payments provided an overview of the service developments report produced by ASX in relation to ASX's conduct in operating its cash equity clearing and settlement services and its code of practice. While CHES replacement remains a key focus for clearing and settlement services, ASX had progressed a number of important servicing enhancements, for example in response to 2020 market conditions, customer requests and some other improvements. The report also noted planned future enhancements.

Members did not raise any questions in respect of the update.

b) External audit of ASX's compliance with the regulatory expectations

ASX's Chief Risk Officer thanked those Committee members who participated in the annual audit conducted by PwC, with PwC reporting that logistically the audit went well and that the process was efficient. The findings of the audit had been shared with ASX's Clearing and Settlement boards, ASIC, RBA as well as Committee members via the meeting papers.

ASX's Chief Risk Officer noted that the results of the audit demonstrate that ASX has complied in all material respects with Regulatory Expectations. ASX had agreed to a number of action items, as contained in the report, addressing the same types of feedback summarised by the Chair as part of agenda item 1c, including improving understanding of the process around Committee membership rotation, agenda input, managing the information content supplied through the meetings and eliciting more questions throughout the meetings. ASX also agreed to provide more information on the calculation of revenue sharing rebates, and provide greater transparency on the pricing of clearing and settlement services for the CHES replacement system. ASX's Chief Risk Officer noted that ASX was working to respond on these action items and that members would see the outcomes over coming meetings.

Members did not raise any questions in respect of the update.

AGENDA ITEM 6: CLOSING

a) Forward work program

The Chair outlined the forward work program, as contained in the meeting materials, and encouraged member input and suggestions. A member suggested the inclusion of the tranche 3 rule amendments package on the agenda for the December meeting (not a presentation from ASX, but the chance for discussion and questions), given that members would have likely digested the consultation materials by then, which the Chair confirmed ASX would include.

A member asked about proposed changes to cash market margin, moving from two-year to five-year historical volatility, and asked when the changes would be formally communicated. ASX's Chief Risk Officer noted this would be discussed at the next Risk Consultative Committee meeting on 25 November 2021, where an update would be provided [as applicable to ETOs, noting that a [market notice](#) was issued on 7 October 2021 advising of changes effective 25 October 2021 for specified equities securities].

b) Other matters

The Chair summarised the actions carried forward from last meeting, and the new action from this meeting.

The Chair thanked the Committee for its participation and contributions, and the additional questions and conversation. Further feedback on ways to enhance engagement throughout the meeting was welcomed, and welcomed any requests for topics or questions for input to the next meeting.

c) Next meeting – 8 December 2021

The next meeting is currently scheduled for 8 December 2021, at a later time of 4-6pm to accommodate Christmas drinks post meeting, COVID restrictions permitting.

The meeting closed at 1.45pm.

Signed as a correct record of the meeting.


Chair

13/01/2022
Date