

Invitation to comment

ASX is seeking submissions on these proposals, including from parties who may be interested in applying to use the Trade Acceptance Service in the future.

Submissions are due by Friday, 14 March 2014. Submissions should be sent to:

E regulatorypolicy@asx.com.au

Regulatory & Public Policy ASX Limited
20 Bridge Street Sydney NSW 2000

Attention: Ms Diane Lewis – Senior
Manager, Regulatory & Public Policy

ASX prefers to receive submissions in electronic form. Submissions not marked as 'confidential' will be made publicly available on ASX's website.

If you would like your submission, or any part of it, to be treated as 'confidential', please indicate this clearly in your submission.

Contacts

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Executive Summary

ASX proposes to amend the Legal Terms of the Trade Acceptance Service and the associated Operational and Technical Standards to:

- **remove the annual service fee for the Trade Acceptance Service** – ASX is proposing to remove the annual service fee effective from 1 July 2014 to provide a pricing outcome consistent with a competitive market for trade execution venues accessing clearing and settlement arrangements.
- **enhance ASX's service level commitments for the Trade Acceptance Service** – ASX is proposing additional service level commitments in relation to notice periods for communicating the details of technical enhancements to the Trade Acceptance Service, and operational changes and technical issues impacting the Trade Acceptance Service.
- **enhance and streamline the Operational and Technical Standards** – ASX is proposing to amend the Operational and Technical Standards to remove unnecessary requirements and ensure equivalence with the requirements applicable to the ASX market and ASX participants.
- **update the Information Handling Standard** – ASX is proposing to update the Information Handling Standard for the protection of confidential information received in connection with the Trade Acceptance Service. The Information Handling Standard sets out, among other things, that directors of ASX Clear, ASX Settlement and ASX Compliance who also sit on the ASX Limited Board will not receive conflict sensitive information or participate in consideration of conflict sensitive information received from an Approved Market Operator (AMO) using the Trade Acceptance Service.

ASX has also released the results of a technical review of the Trade Acceptance Service. The review identified no material differences in the field specification and validation logic between the Trade Acceptance Service and the equivalent verification function provided by CORE for trades executed on the ASX market. The review confirms that equivalent outcomes are achieved for trades submitted for clearing and settlement through the Trade Acceptance Service, and those submitted for clearing and settlement from the ASX market.

From its commencement to December 2013, the Trade Acceptance Service has had an average availability of 99.98%. In that time, over 51 million trades have been submitted for clearing and settlement through the Trade Acceptance Service. Of the trades submitted, 784 trades were 'incorrectly' rejected (representing 0.0015% of trades submitted). Almost all of these rejected trades (778) occurred as a result of a technical issue with CHES shortly after the commencement of the Trade Acceptance Service in December 2011. These trades were replayed and processed within two hours of the trades being rejected.

In addition, ASX is seeking expressions of interest for the establishment of a Trade Acceptance Service to enable trades in securities listed on the markets of an Approved Listing Market Operator ('ALMO', which is a listing and trading venue for securities that are not ASX-listed securities) to be accepted by ASX Clear and ASX Settlement for clearing and settlement.

Separately, ASX is proposing to enhance the service levels and other Operational Procedures applicable to its Settlement Facilitation Service for other listing venues that are operated by ALMOs, and put in place an Information Handling Procedure for that service. The Information Handling Procedure will formalise the current arrangements for the protection of confidential information received from an ALMO.

Removal of annual service fee

1. ASX is committed to provide non-discriminatory pricing to all customers and potential users.
2. In the context of the current market structure for clearing and settlement in Australia, ASX has reviewed the annual service fee for the Trade Acceptance Service. At the time of the commencement of the Trade Acceptance Service, a policy decision on the structure of clearing and settlement in the cash equity market had not been made. On 11 February 2013, the Treasurer accepted the recommendation from the Council of Financial Regulators to defer a decision on any licence application from a competing central counterparty for cash equities for two years, subject to ASX putting in place a code of practice for the clearing and settlement of cash equities in Australia.
3. ASX is proposing to remove the annual service fee for the use of the Trade Acceptance Service. The removal of the annual service fee will be effective from 1 July 2014 and will remain in force while the Code of Practice and the policy decision to defer consideration of any licence application from a competing central counterparty for the clearing of cash equities remains in place.
4. The removal of the annual service fee is consistent with ASX's commitment in the Code of Practice to make the service level agreements consistent with the outcomes of a competitive market (and ASX Clear and ASX Settlement's licence obligations). Feedback received in relation to other markets where there is more than one central counterparty for cash equities clearing indicates that clearing facilities do not necessarily charge trading venues an annual fee.
5. The application fee to be paid on lodgement of an application to receive the Trade Acceptance Service will continue to apply. For an expansion or enhancement of the Trade Acceptance Service requested by an AMO and agreed by ASX Clear and ASX Settlement, a monetary contribution towards the capital cost of the expansion or enhancement from the AMO to ASX Clear and ASX Settlement, as agreed by the parties, will also continue to apply.

Enhanced service levels and other amendments to the Legal Terms of the Trade Acceptance Service

6. In the Code of Practice for Clearing and Settlement of Cash Equities in Australia (Code of Practice), which became effective on 9 August 2013, ASX committed to consult AMOs and ALMOs on their respective service level agreements under the Trade Acceptance Service and the Settlement Facilitation Service, with the objective of the service level agreements being consistent with the outcomes of a competitive market and ASX Clear and ASX Settlement's licence obligations.
7. The service level agreements for the Trade Acceptance Service are included in Schedule 3 of the Legal Terms. ASX proposes to amend Schedule 3 of the Legal Terms to provide additional service levels in respect of the notification to AMOs of technical enhancements to the Trade Acceptance Service and operational changes impacting the Trade Acceptance Service.
8. The proposed new service levels set out the minimum notice period and the form of communication that ASX will use in connection with communicating with AMOs about the timing and details of technical enhancements to the Trade Acceptance Service. For example, ASX commits to giving AMOs a minimum of a three month notice period for a Trade Acceptance Service Application functional upgrade requiring an external CHES release. ASX will communicate this information through an ASX Bulletin.
9. The proposed new service levels also set out commitments by ASX to inform AMOs of particular operational changes impacting the Trade Acceptance Service within a period of time of an operational change being made or in relation to a technical issue impacting the Trade Acceptance Service being identified. For example, ASX commits to inform AMOs of a new clearing participation accreditation within 1 hour of CHES set up and ASX commits to inform an AMO of a clearing participant default as soon as possible and, in any event, within 30 minutes of the participant being advised of the action to be taken.

10. It is proposed that the amendments to the Legal Terms will be effective from 1 July 2014. These amendments to the Legal Terms will remain in force while the Code of Practice and the policy decision to defer consideration of any licence application from a competing central counterparty for the clearing of cash equities remains in place or until termination of the Legal Terms for the provision of the Trade Acceptance Service, whichever is earlier.
11. Consistently with the approach to amendments under the Legal Terms for the Trade Acceptance Service, ASX proposes to provide at least a 21 day consultation period and the final amendments will be published at least 90 days prior to the implementation date. The public release of this consultation paper represents the commencement of the consultation period.
12. The proposed amendments to the Legal Terms for the Trade Acceptance Service and the proposed new service levels are provided in Attachment A.

Streamlined Operational and Technical Standards for the Trade Acceptance Service

13. In addition to the commitments made in the Code of Practice, ASX has reviewed the Operational and Technical Standards under the Legal Terms for the Trade Acceptance Service. As a result, ASX is proposing to streamline and enhance the Operational and Technical Standards to remove unnecessary requirements and ensure equivalence with the requirements applicable to ASX Trade and ASX participants.
14. As a result of this review and feedback received from Chi-X in quarterly service review meetings, ASX is proposing to remove five of the requirements included in the Operational and Technical Standards on the basis that they either duplicate obligations imposed under an Australian financial market licence or that the issue is adequately addressed by other requirements. ASX also proposes to amend two of the requirements included in the Operational and Technical Standards to better reflect current arrangements.
15. The remaining requirements continue to be relevant on the basis that they are aimed at managing counterparty and operational risk, and are equivalent to the requirements that are in place for ASX Trade / ASX participants.
16. The proposed amendments to the Operational and Technical Standards for the Trade Acceptance Service are provided in Attachment B.

Technical Review of the Field Specifications and Validation Logic of the Trade Acceptance Service

17. ASX has undertaken a review of the field specifications and validation conditions in the Trade Acceptance Service as it relates to messaging, processes and systems availability. The objective of the review was to identify any differences in the field specifications and validation conditions, and to ensure that the Trade Acceptance Service continues to provide equivalent outcomes for trades received from Chi-X that are submitted for clearing and settlement through the Trade Acceptance Service compared to trades received from the ASX market.
18. Since the commencement of the Trade Acceptance Service on 31 October 2011 to December 2013, the average availability for the Trade Acceptance Service was 99.98%. There have been three occurrences where the Trade Acceptance Service has not been available, with a total downtime of 77 minutes. Only one of these incidents (occurring in December 2011 shortly after the commencement of the Trade Acceptance Service) resulted in the availability target of 99.80% not being met, with the average availability for December 2011 being 99.74% (with the downtime for the month being 37 minutes).
19. From the commencement of the Trade Acceptance Service to December 2013, about 51,205,927 trades have been submitted for clearing and settlement through the Trade Acceptance Service by Chi-X. Of these, 51,202, 537 (99.993%) were accepted for clearing and settlement, 795 trades were rejected and 2,595 trades were cancelled (cancellations are generated by Chi-X / trading participants of Chi-X). Of the rejected trades, 778 trades were rejected because of a technical issue with CHES in December 2011. These trades were replayed and processed within two hours of the trades being rejected. Only 6 trades have been rejected as a result of differences in the validation conditions for the Trade Acceptance Service.

20. The review has found no material differences in the field specifications and validation conditions between the Trade Acceptance Service and CORE (CORE provides an equivalent verification function for trades executed on the ASX market as that provided by the Trade Acceptance Service). It also found that the Trade Acceptance Service provides an equivalent basis for trades received from Chi-X that are submitted for clearing and settlement compared to trades received from the ASX market. While the review did not identify any material differences in the field specifications and validation conditions between the Trade Acceptance Service and CORE, it did identify three minor unnecessary differences in the field specifications and validation conditions which could have the potential to lead to different outcomes in the event of a rare set of circumstances being triggered. The three differences relate to:
 - 20.1. the Trade Acceptance Service having a validation condition that the CHES sub-register for the security must be open. Two instances have been identified where a trade has been incorrectly rejected as a consequence of this condition;
 - 20.2. for trades submitted through the Trade Acceptance Service, the as-at-date must be the previous business day. No instances have been identified where a trade has been incorrectly rejected as a consequence of this difference;
 - 20.3. validation checks are performed at different stages of the process for trades submitted through CORE and trade submitted through the Trade Acceptance Service. No instances have been identified where a trade has been incorrectly rejected as a consequence of this difference; and
21. ASX proposes to implement changes to Trade Acceptance Service in relation to these three items by 1 July 2014. The timing of implementation of the changes to the Trade Acceptance Service is subject to Chi-X's availability to undertake functional / user acceptance testing.
22. A report on the Technical Review of the Field Specifications and Validation Conditions for the Trade Acceptance Service is provided at Attachment C.

Expressions of interest in a Trade Acceptance Service for ALMO-listed and approved financial products

23. ASX has had informal discussions with some stakeholders regarding the provision of clearing and settlement arrangements to ALMO's by establishing a Trade Acceptance Service to enable trades in securities listed on the markets of ALMOs (trading in securities listed on other markets and not listed on the ASX market) to be accepted by ASX Clear and ASX Settlement for clearing and settlement.
24. As a first step in examining the operational and other requirements for such a Trade Acceptance Service, ASX is seeking feedback on the level of interest in using the Trade Acceptance Service in respect of trading in securities listed on the markets of ALMOs ahead of a formal request being made for such a service. Any interested party is also invited to include details relating to their requirements for using the Trade Acceptance Service to provide clearing and settlement arrangements.
25. Based on the feedback received through this consultation on the interest in using the Trade Acceptance Service for trading in securities listed on the markets of ALMOs and the requirements of any interested party, ASX will undertake an assessment of the operational requirements and impacts for the Trade Acceptance Service.

Enhanced service levels and Operational Procedures for the Settlement Facilitation Service

26. In accordance with its commitments in the Code of Practice, ASX has undertaken a review of all the operational procedures and service levels in place for the Settlement Facilitation Service with a view to identifying areas where the Operational Procedures and service levels could be enhanced.
27. As a result of the review, ASX is proposing to update and amend existing operational procedures and service levels to ensure that where possible they are equivalent to those in place for ASX Compliance / ASX-listed entities (this includes the same time periods for the notification of certain events). The alignment of some of the processes has

required the implementation of two technical changes in CHESS, which have been completed. These changes were aimed at ensuring that ALMO issuer, security and corporate action data is captured once by ASX in the ASX CORE database and fed to CHESS / external market data services without requiring a manual process.

28. ASX is also proposing to amend the Operational Procedures to incorporate feedback received from ALMOs in quarterly service review meetings, to put in place operational procedures for the new Corporate Actions Service and to formally document operational procedures that reflect current arrangements.
29. ASX has consulted on the proposed amendments to the Operational Procedures, including the service levels, bilaterally with the existing customers, National Stock Exchange of Australia (NSX), SIM VSE and Asia Pacific Stock Exchange (APX). With input from NSX, SIM VSE and APX, the amended Operational Procedures are expected to be finalised and implemented by the end of January 2014.

Information Handling Standards

30. In the Code of Practice, ASX committed to put in place operational standards for the protection of AMO and ALMO conflict sensitive information received in the course of providing the Trade Acceptance Service and the Settlement Facilitation Service.
31. In accordance with these commitments, ASX is proposing to update the Information Handling Standard made under the Legal Terms for the protection of AMO conflict sensitive information received by ASX in connection with the provision of the Trade Acceptance Service.
32. ASX is also proposing to put in place an Information Handling Procedure under the Settlement Facilitation Service Agreement to formalise the information handling arrangements that have been used for the protection of ALMO conflict sensitive information received by ASX in connection with the provision of the Settlement Facilitation Service. The proposed Information Handling Procedure is being put in place in accordance with clause 3.5 of the Settlement Facilitation Service Agreement.
33. The purpose for the Information Handling Standard / Procedure is to establish a transparent framework for handling confidential information, including conflict sensitive information, disclosed to the ASX by AMOs and ALMOs in connection with the provision of the Trade Acceptance Service and the Settlement Facilitation Service. The Information Handling Standard / Procedure seeks to balance:
 - 33.1. the need to ensure that the potential for conflicts on the part of ASX Group directors and ASX Group employees, resulting from the receipt of conflict sensitive information, is appropriately managed; and
 - 33.2. the need to ensure that ASX Clear and ASX Settlement continue to comply with their statutory obligations as CS facility licensees.
34. The Information Handling Standard / Procedure does not require an AMO or an ALMO to provide conflict sensitive information to ASX. It sets out the process for AMOs and ALMOs which seek to share AMO and ALMO conflict sensitive information with any member of the ASX Group in connection with the provision of the Trade Acceptance Service and the Settlement Facilitation Service.
 - 34.1. AMOs and ALMOs should provide any such conflict sensitive information in writing to ASX's General Manager of Regulatory Assurance by emailing gm.regulatoryassurance@asx.com.au.
 - 34.2. Any AMO or ALMO conflict sensitive information which an AMO or ALMO provides to ASX should be clearly marked 'AMO / ALMO conflict sensitive information'.
 - 34.3. The AMO or ALMO can request that the conflict sensitive information be provided to particular ASX Group employees.

- 34.4. The conflict sensitive information will only be distributed to those ASX Group employees that the AMO or ALMO have requested receive the information, ASX Group employees that require the information in connection with the provision or potential provision of the Trade Acceptance Service or Settlement Facilitation Service, and ASX Group employees that require the information in performing their role in connection with the discharge of regulatory obligations of the ASX Group.
35. The Information Handling Standard / Procedure sets out that AMO and ALMO conflict sensitive information will not be distributed to ASX Group directors except if:
- 35.1. the information is required by the directors in performing their duties, roles and responsibilities as directors of ASX Clear and ASX Settlement in respect of their obligations as licensed CS facilities;
 - 35.2. the information is relevant to the risk-control function of the clearing and settlement facilities; and
 - 35.3. the information is required by the ASX Compliance Board because it is relevant to the supervision of ASX Clear and ASX Settlement's clearing and settlement facilities.
36. In addition, the Information Handling Standard / Procedure sets out that directors of ASX Clear, ASX Settlement and ASX Compliance who also sit on the ASX Limited Board will not receive AMO or ALMO conflict sensitive information or participate in consideration of AMO or ALMO conflict sensitive information pursuant to the above mentioned exceptions. No ASX Group employee who is a member of ASX's business development function shall be present during Board consideration of AMO or ALMO conflict sensitive information pursuant to these exceptions.
37. The updated Information Handling Standard applicable to the provision of the Trade Acceptance Service is provided in Attachment D.
38. The proposed Information Handling Procedure applicable to the provision of the Settlement Facilitation Service is provided in Attachment E.

Explanation of Trade Acceptance Service and Settlement Facilitation Service

What is the Trade Acceptance Service?

39. The Trade Acceptance Service provides AMOs with non-discriminatory access to clearing and settlement arrangements with ASX. It allows transactions in CHESS-eligible ASX-quoted securities that are executed on the market of an AMO to be cleared and settled through ASX Clear and ASX Settlement, the ASX clearing and settlement facilities on an equivalent basis to transactions effected through ASX's cash equity market.
40. The Trade Acceptance Service is provided by ASX Clear and ASX Settlement directly to AMOs under a published set of [Legal Terms](#). Under the Legal Terms, ASX has made:
- 40.1. Operational and Technical Standards – which set the basic parameters of trade acceptability and specify other technical and operational requirements for AMOs using the Trade Acceptance Service; and
 - 40.2. an Information Handling Standard – setting out the arrangements for the protection of confidential information, including conflict sensitive information, provided to ASX by an AMO in connection with the Trade Acceptance Service.
41. The Legal Terms came into effect on 31 October 2011 and operate for a term of 5 years. There is a scheduled review of the Legal Terms that will be carried out by 31 October 2015, which is 12 months prior to their expiry.

What is the Settlement Facilitation Service?

42. The Settlement Facilitation Service provides ALMOs with non-discriminatory access to settlement arrangements. It allows transactions in CHESSE-eligible financial products quoted on the market of an ALMO to be settled through ASX Settlement on an equivalent basis to transactions effected through ASX's cash equity market. ALMOs are provided with two options for settlement arrangements under the Settlement Facilitation Service:
 - 42.1. a Transfer Facilitation Service – allowing financial products quoted on the market of an ALMO to be transferred between counterparties, with payment effected outside of ASX Settlement's settlement facility; or
 - 42.2. a Delivery versus Payment (DvP) Facilitation Service – allowing approved financial products quoted on the market of an ALMO to be exchanged for payment simultaneously and irrevocably within the DvP batch settlement (where an ALMO elects a DvP Facilitation Service, it also obtains a Transfer Facilitation Service as the ability to transfer financial products is an integrated component of the DvP settlement function).
43. ASX Settlement has also put in place arrangements for ALMO-listed issuers to use the ASX Primary Market Facility and the Corporate Actions Service. The ASX Primary Market Facility enables ALMO-listed issuers to use DvP settlement for certain capital raisings. The Corporate Actions Service enables a corporate action for CHESSE-eligible securities of issuers quoted on or approved for quotation on the market of an ALMO to be processed by the Settlement Facility.
44. The Settlement Facilitation Service is made available to ALMOs in accordance with a published set of [legal terms of service](#). Under the Legal Terms, ASX has put in place Operational Procedures. The Operational Procedures set out the service level agreements and the operational procedures applicable to ALMOs using the Transfer Facilitation Service, the Delivery versus Payment Facilitation Service, the ASX Primary Market Facility and the Corporate Actions Service.

Attachment A – Amendments to the Trade Acceptance Service Legal Terms



Attachment B – Amendments to the Operational and Technical Standards for the Trade Acceptance Service

Attachment C – Technical review of the Trade Acceptance Service

The Technical Review of the Field Specification and Validation Logic of the Trade Acceptance Service has been provided to Chi-X Australia. If you wish to receive a copy of this review, please contact Ms Diane Lewis, Senior Manager, Regulatory & Public Policy on Diane.Lewis@asx.com.au

Attachment D – Information handling standard for the Trade Acceptance Service



Attachment E – Information handling standard for the Settlement Facilitation Service