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4<sup>th</sup> September 2013

Dear Joshua,

On behalf of WealthHub Securities Limited, I would like to thank the ASX for the opportunity to allow Participants to respond to regulatory initiatives that will impact all stockbroking stakeholders.

We have carefully considered the Financial Stability Standards Implementation – The Way Forward industry consultation paper, with dialogue with our System Vendor and attending the ASX presentations.

The responses provided intend to provide a proactive thought process to enhancing existing system capabilities as well as identifying alternative and potential changes to the clearing model,

#### **Q1. Which method do you and why?**

WealthHub Securities Limited (WealthHub) preferred method is Option 1. That is no change to the current process.

WealthHub requests that ASX promote industry discussion between all stakeholders including Reserve Bank of Australia to develop a greater understanding of the inherent safeguards of the existing Clearing model. In particular, as a Participant developing its business model, WealthHub would seek to discuss further the inherent safeguards and clearing system enhancements with ASX.

It is our opinion the consultation paper has not considered all possible solutions such as enhanced Chess messaging to provide the "visibility" as an approach to Standard 13.

This could be achieved by allowing Participants to schedule settlements directly from the client HIN by a 105 style message with a sub-register on an irrevocable basis, providing ASX with that client "visibility". We are happy to further discuss this proposal with ASX as this would also allow ASX to provide Cash Market Margining offset by allowing these scheduled settlements to be excluded from the margining process. This message could be considered retail DVP.

From WealthHub understanding, there would be a minimal change to Participant process and procedures, including system vendor software changes. Though consideration for testing of new Business activities need to be undertaken for the above mentioned Chess messaging enhancement.

#### **Q2. Should any other alternatives be considered?**

Option 2(c) is the viable alternative that we consider doable if the industry moves to an omnibus model and potentially could be offered to Participants as an alternative to Option 1.

Allowance for Multiple PID's is currently the approach WealthHub is applying for transferring and implementing new business activities.

A segregated House and Client account as 2 omnibus accounts provide the simplest and most cost effective way (between options 2 & 3) for implementation in the June quarter 2014.

WealthHub would seek under one legal entity 2 House Accounts and 2 Client Accounts (one of each to support the existing model for PID's 122-6 and PID 122-7. This provides WealthHub with 2 distinct and separate business pipes for the execution and clearing of online and advisory services for ASX products.

When discussing the options, consideration to the solution has also been given to enhancing Chess messaging functionality by enhancing a 105 style message to provide ASX with client "visibility" with legal intent required that the trade message once matched is irrevocable.

Consideration also should be given to either moving to a T+1 or T+2 settlement cycle to minimise perceived settlement risk (which may assist in minimising the need for CMM (Cash Market Margining).

### **Q3. Are there any other factors that should be taken into account?**

WealthHub reviewed externally published industry and regulatory agency papers, including appetite to enforce/address and believe that all stakeholders should understand the specific risks that are being addressed and whether these risks couldn't be addressed by addressing Chess functionality rather than structural changes to the DVP Clearing model.

Option 3 will require major software code changes along with a significant increase in Operations Risk with major procedure and control processes to be implemented.

The alternatives raised in question 1 and 2 should be investigated and assessed.

### **Q4. Are there any other impacts or benefits of either model on clearing participants or their clients that should be taken into consideration?**

As a participant, WealthHub would like to ensure that cash market margining is minimised with improvements to ASX to Participant Client "visibility" and cash margin offsets provided.

WealthHub also highlights that as a Participant, WealthHub covers the client settlement obligation therefore carrying principal, funding and liquidity risk of a client trade failing for all client purchases. This trade in effect becomes a "House" trade until the client pays WealthHub.

Option 2 is achievable in the time frame indicated but would require significant internal and external resources and additional cost to achieve. With none of the described option's providing significant improvement to the current process for Participants.

### **Q5. What if any, would be the implementation impact on Clearing Participants?**

The major impediment for implementation of option's 2A, 2B and 3 is the time frame for project implementation, for both Participant and System Vendors. It would also by inference incur significant costs.

Option 3 is a major software code change. Whilst both option 2A, 2B and 3 may have significant business resourcing and testing requirements to implement required changes.

Other impacts include increased requirements for additional banking facilities to support multiple PID's, multiple sources of risk to be assessed and fed into capital models

Potentially, benefits to the Participant in reducing Cash Market Margining collateral deposit held otherwise.

We would incur significant costs due to having to test and implement either option 2 or 3 with 3 being considered unachievable in the current required time from both from a vendor and internal resource requirement.

**Q6. Should Clearing Participants be able to offer any of the options outlined to their clients?**

No, this would introduce an additional layer of complexity without full understanding of the risks, and therefore WealthHub would consider this would make implementation of the solution unachievable (with the exception of enhancing Chess messaging for option 1). Participants on the other hand may want to choose between Options 1 and 2.

**Q7. Do you believe a gross margin client omnibus account structure should be considered in order to facilitate margin pass through.**

Yes, whatever option is considered a provision must provide for a maximum margin pass through for the Participant to keep the cost burden on the Participant to a minimum. This also could be gained from a minor change to current Chess messages.

**Q8. Under the ISCA proposal (Option 3), do you believe that the final settlement should occur on a per client account basis or as one single settlement across all clients.**

WealthHub do not believe there is any real need to alter the way settlement occurs currently (with exception to potentially enhancing CHESSE messaging), settling on a line by line or client by client basis (assuming that we would not be allowed to offset or contra stock for internal clients) increase the volume of settlement messages and increase our CMM obligation.

This would require significant change to existing systems to allow this to occur, and significant additional costs to 1) Implement and 2) ongoing.

**Q9. Are there any comments on the proposal, especially on the operational impact.**

From a WealthHub perspective, we don't have a strong opinion to the proposed changes to amend the existing rescheduling arrangements to include "stock repurchase arrangement" other than the ASX or participants will not be impacted by a possible tax event and therefore appropriate advice must be sought by ASX to cover the tax and commercial intent before this proposal is implemented.

**Q10. Are there any other changes required to the Clearing Participant/client arrangements to facilitate the operation of the offsetting transaction arrangements?**

Not at this stage. We can see no real reason to change the way settlements are rescheduled currently in line with previous comments around our participant obligations to ASX and ASIC.

**Q11. Are there any suggestions for alternatives that achieve the same regulatory requirement, particularly drawing on overseas experience.**

None that we are unaware of and again do not see why the Reserve Bank deems there is a need to change.

## Attachment A – Request for Clearing Participant Information

WealthHub currently services the retail market with no House trading activity (with the exception of Error trades).

Accordingly, WealthHub do not expect a material change in the annual dollar of cash equity market positions traded on ASX Trade and ASX Clear.

WealthHub is currently unable to provide a (\$) value for internal development work, but willing to discuss with the ASX further, as the ASX defines the recommended approach to the Financial Stability Standards.

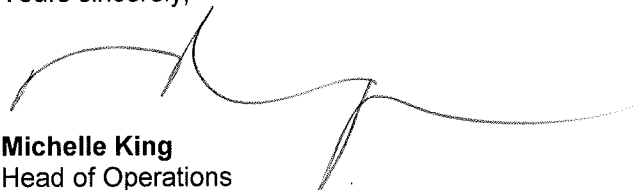
### Summary

The current clearing model continues to remain suitable for the Australian market with regulatory change understood by all stakeholders, including regulatory in the context of the Australian market size, the clearing infrastructure functionality available, and awareness of future regional strategy given new competitive entrants.

As previously mentioned, WealthHub is willing to provide the appropriate team members to meet with ASX and Reserve Bank on developing greater understanding of the evolving needs to adapt to regulatory change with greater understanding of the inherent controls contained within the current model and where improvements may be undertaken.

If you have any further queries, please do not hesitate to call to discuss further.

Yours sincerely,



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