

Clearing and Settlement Boards Charter

February 2018

1. Clearing and Settlement Governance

- 1.1. This Charter sets out the role, responsibilities, composition and operation of the clearing and settlement ('CS') boards.
- 1.2. The CS boards are the governing bodies of the ASX Group companies which:
 - a) hold Australian CS facility licences under the Corporations Act ('CS licensees'); and
 - b) are the intermediate holding companies of the CS licensees, (together, the 'CS subsidiaries').
- 1.3. CS licensees ASX Clear and ASX Settlement are the sole providers of Australian cash equity market clearing and settlement services, respectively. ASX has updated its 'Cash Equities Clearing and Settlement Code of Practice' ('Code') to reflect its commitment to comply with the 'Regulatory Expectations for the Conduct of Cash Equity Clearing and Settlement Services in Australia' ('Regulatory Expectations') released by the Council of Financial Regulators in October 2016. The Code also sets out ASX's commitment to customers and other stakeholders in managing cash equities clearing and settlement infrastructure and services for the Australian market. This includes:
 - a) meaningful engagement with customers and other stakeholders about the ongoing operation and development of cash market equity clearing and settlement infrastructure and services.
 - b) transparent and non-discriminatory pricing and access to cash equity clearing and settlement services.
 - c) protection of confidential and competitively sensitive information.
- 1.4. ASX regularly seeks feedback from participants and stakeholders, such as users of the CS facilities. Paragraph 7 of this Charter describes ASX's consultation with stakeholders and the advisory forums that contribute to this process.
- 1.5. The relationships and reporting between the CS boards and other ASX Group governance forums are described in paragraph 4 of this Charter.
- 1.6. International and domestic regulatory standards impose strict governance arrangements on the CS licensees. ASX publishes on its website a comprehensive public disclosure statement which sets out in detail how the CS licensees comply with international (Principles for Financial Market Infrastructure or 'PFMI') and domestic (Financial Stability Standards or 'FSS') regulatory standards. Australia's central bank, the Reserve Bank of Australia ('RBA') and Australia's securities and derivatives markets regulator, the Australian Securities and Investments Commission ('ASIC') assess

the CS licensees' ongoing compliance with these standards and broader license conditions under the Corporations Act.

2. Role and Responsibilities of CS Boards

2.1. The CS licensees' statutory obligations include, but are not limited to:

- a) to the extent it is reasonably practicable to do so, complying with the FSS and doing all other things necessary to reduce systemic risk;
- b) to the extent it is reasonably practicable to do so, doing all things necessary to ensure that the CS facility's services are provided in a fair and effective way; and
- c) having adequate arrangements for:
 - i) handling conflicts between the commercial interests of the licensee and the need for the licensee to ensure that the facility's services are provided in a fair and effective way; and
 - ii) enforcing compliance with its operating rules.

2.2. The non-ASX directors on the ASX Clear and ASX Settlement boards meet separately from the other CS boards to:

- a) consider and, where appropriate, determine matters that require the consideration of competitively sensitive information acquired in the course of providing clearing and settlement services to another market operator or listing venue;
- b) oversee ASX Management's handling of confidential and competitively sensitive information acquired in the course of providing clearing and settlement services to another market operator or listing venue;
- c) oversee the provision of clearing and settlement services to another market operator or listing venue.

2.3. The CS boards (or relevant CS board, where applicable):

- a) set the operational risk tolerances for the CS licensees. In doing this, the CS boards have regard to the legitimate business interests of ASX Limited as a provider of capital to the clearing houses and to the business risk capital that ASX Limited holds for the CS licensees;
- b) review and approve the risk management framework, and oversee the adequacy of internal controls, systems and processes for the effective management of clearing and settlement risks of the CS facilities, including: receiving reports on performance of systems, services, models and controls; reviewing at an aggregate level, and when needed at individual participant level, limits and stress testing outcomes; reviewing participant revenues, business initiatives and operational issues; and operational and technical incident reporting;

- c) review and approve the investment mandate and risk management framework for the investment of clearing participant margins deposited with the CS licensees and other prefunded default resources;
- d) assess and approve new product categories against the clearability policy for admittance of new products, and provide feedback to Management on potential counterparty or systemic risk issues that need to be considered;
- e) oversee management systems and processes in place to achieve:
 - i) ongoing compliance with the FSS and international PFMI standards for financial market infrastructure;
 - ii) ongoing compliance with the CS licensees' statutory obligations (including compliance with their statutory obligations as licence holders);
 - iii) management of the CS licensees within the ASX risk appetite and the operational risk tolerances set by the CS boards; and
 - iv) consideration of relevant public interest considerations and objectives of relevant stakeholders;
- f) review default management policies, systems and processes in the event of counterparty failure and default;
- g) review ASX Group's remuneration arrangements and processes as they apply to the CS licensees with regard to:
 - i) the incentives created; and
 - ii) the FSS and other applicable regulatory requirements;
- h) provide input to the Remuneration Committee on the remuneration arrangements and performance processes of key executives, including the Chief Risk Officer and Chief Operating Officer; and
- i) review and approve the CS licensee full-year statutory reports.

2.4. The CS boards do not make decisions on the commercial arrangements or fees for access arrangements, or clearing and settlement fees. These matters are administered by Management of ASX Limited and, in the case of Australian cash equities, are regulated by the Code. All access arrangements and fees are non-discriminatory.

3. CS Board Composition and Operation

3.1. A majority of CS board directors are independent non-executive directors. The Managing Director and CEO of ASX ('CEO') may serve as a director. The Chairman of each CS licensee is also an independent non-executive director.

- 3.2. CS board directors have been appointed for their skill and expertise in clearing and settlement operational and risk management matters. ASX values the skills, experience and perspective brought to the CS boards by members who are involved with stakeholders of ASX including listed entities and participants.
- 3.3. The directors and Chairman of each CS board are appointed by the relevant CS board with input from the Nomination Committee. In addition, the constitutions of the CS boards provide that the Board of ASX Limited ('ASX Board') may appoint or remove CS board directors.
- 3.4. The ASX Group is committed to conducting its business in an open and transparent manner. The ASX Group's Conflict Handling Arrangements and Information Handling Standards are part of its governance framework and encompass customers, competitors, supplier arrangements and governance arrangements.
- 3.5. The ASX Clear and ASX Settlement boards have been constituted such that they comprise at least 50% of directors not also on the ASX Board. These directors can form a quorum to consider competitively sensitive information acquired in the course of providing clearing and settlement services to another market operator or listing venue. In such circumstances, only those directors who are not on the ASX Board will attend and receive papers for the meeting. Neither the matters discussed nor the minutes of such meetings are reported to ASX Board or ASX directors. Management attendance at such meetings is restricted.
- 3.6. CS board directors must disclose all material personal interests (such as shareholdings, directorships and consultancy arrangements) which may potentially conflict with their duties. If there is a change in their material personal interests, the director must notify that change at the next meeting of the CS boards. If there is a real and sensible possibility of a conflict of interest and duty on a matter being voted on at a meeting of the board, the director must not be present for the discussion of, or vote upon that matter.
- 3.7. A review of directors' independence is undertaken by:
 - a) tabling of individual director interests at each and every board meeting
 - b) an annual formal assessment using defined criteria of independence and materiality consistent with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. Involvement with a listed entity or a participant in an ASX licensed market or CS facility does not in itself diminish a director's ability to act as an independent director.
- 3.8. The CS boards and directors undergo regular performance reviews. This may be undertaken by an external consultant.

4. Relationship with other ASX Group Governance Forums

- 4.1. There are clear reporting lines between the CS boards and the ASX Board and its Committees.
- 4.2. The CS boards will report to the ASX Board and its Committees on clearing and settlement matters which are relevant to those bodies. These reports may be verbal.

- 4.3. Matters considered by the ASX Board or its Committees which:
- a) have been delegated by the CS subsidiaries; or
 - b) may impact on the CS subsidiaries,
- are reported to the CS boards as required. These reports may be verbal.
- 4.4. The Audit and Risk Committee ('ARC') has responsibility for oversight of ASX Group enterprise wide risk, including the ASX Group's cyber resilience, outside of the areas reviewed by the CS boards. The CS boards may request the ARC to review matters which may impact on the CS licensees. The ARC also provides oversight of compliance and conflict handling arrangements of the ASX Group's markets and clearing and settlement facilities, as set out in the ARC Charter.
- 4.5. The CS boards rely on the ARC to review and oversee the methodology and process for the cyber resilience of the CS facilities, preparing the Cash Market Clearing and Cash Market Settlement Management Income Statements and the ASX internal cost allocation and transfer pricing policy between ASX Group entities for clearing and settlement of cash equities in Australia prepared pursuant to the Code, and the independent external auditor's report in relation to those statements.
- 4.6. The CS boards have appointed the Remuneration Committee to review the remuneration arrangements and performance management processes relating to the Chief Risk Officer and Chief Operating Officer, with input from the CS boards.
- 4.7. The CS boards have appointed the Nomination Committee to consider nomination matters with respect to the CS boards.
- 4.8. Each year, the Audit and Risk, Nomination and Remuneration Committees will each report to the CS boards a summary of the activities the Committee has carried out relevant to the CS subsidiaries and confirm all obligations delegated to the Committee have been carried out.
- 4.9. The Chief Compliance Officer has responsibility for the performance of compliance and enforcement functions for the ASX Group's markets and clearing and settlement facilities. The Chief Compliance Officer reports to the CS boards at each meeting in relation to these functions, as well as providing a detailed report on the performance and resourcing of these functions to each meeting of the ARC.
- 4.10. ASX directors are invited to attend CS board meetings, can request copies of CS board papers and receive minutes of CS board meetings, other than the separate meetings of ASX Clear and ASX Settlement referred to in paragraph 2.2 of this Charter.

5. Clearing and Settlement Management

- 5.1. The ASX Board has appointed a CEO, who has responsibility for the overall operational, business and profit performance of the ASX Group. The CEO manages the ASX Group in accordance with the strategy, plans and policies approved by the ASX Board from time to time.
- 5.2. The Chief Risk Officer and Chief Operating Officer report to the CEO and have responsibility for the overall clearing and settlement risk management of the CS licensees, respectively, and for ensuring

the licensees meet the obligations imposed on them. Each executive has a direct reporting line to the CS boards in relation to these matters, and is entitled to attend and be heard at all meetings of the CS boards.

- 5.3. A written Business and Operations report including updates from the Chief Risk Officer and Chief Operating Officer is presented to each scheduled CS board meeting.
- 5.4. The CS boards review the performance of the Chief Risk Officer and Chief Operating Officer and advise the Remuneration Committee of the outcome of this review.
- 5.5. The Chief Risk Officer and Chief Operating Officer are appointed and terminated by the CEO, after consultation with the ASX Board and with the agreement of the CS boards.
- 5.6. The Chief Risk Officer and the Chief Operating Officer may not have a material commercial association with a participant in an ASX licensed market or CS facility without the prior written consent of the CS boards.
- 5.7. ASX Clear and ASX Settlement have implemented the ASX Group's Conflict Handling Arrangements policy and Information Handling Standards to govern the communication of, and access to, confidential and competitively sensitive information within the ASX Group if another market operator or listing venue is obtaining services from, or access to the CS facilities. The ARC has oversight of the Conflict Handling Arrangements.

6. Audit, Controls and Assurance

- 6.1. Reviews and confirmations are provided to the CS boards that the CS licensees are complying with applicable regulatory requirements and information handling standards, including:
 - a) external audit reviews of the CS licensee financial statements and the Cash Market Clearing and Cash Market Settlement Management Income Statements under the Code;
 - b) external audit and internal audit reviews of ASX's compliance with its obligations under the Code, including the Information Handling Standards;
 - c) reports from the Internal Audit function regarding the outcome of internal audits relevant to CS licensee activities;
 - d) reports from the Regulatory Assurance function, regarding the CS licensees' compliance with the FSS and other regulatory obligations;
 - e) reports from the ARC regarding the effectiveness of the ASX's Group's cyber resilience risk control systems;
 - f) certifications from the Regulatory Assurance function (audited by the internal and external auditor) that:
 - i) the Information Handling Standards for the protection of confidential and competitively sensitive information acquired by ASX Clear and/or ASX Settlement in the course of

providing clearing and settlement services to another market operator or listing venue, are operating effectively; and

- ii) There has been full compliance with the Information Handling Standards;
 - g) a half-yearly report from the Chief Compliance Officer certifying to the CS boards that the compliance and enforcement services performed by ASX Compliance have been performed to a standard sufficient to demonstrate adequate arrangements for enforcing compliance with its Rules.
- 6.2. The CS boards approve the external audit review, internal audit and regulatory assurance annual plans for the CS licensees.
- 6.3. The General Manager Internal Audit and General Manager Regulatory Assurance each have a direct line of reporting access to the CS boards on matters relevant to the CS subsidiaries, and are entitled to attend and be heard at all meetings of the CS boards.

7. Consultation with Stakeholders

- 7.1. The ASX Group Customer Charter sets out how ASX intends to balance the interests of its customers, shareholders and the broader financial markets.
- 7.2. The Business Committee provides user input to ASX Clear and ASX Settlement in relation to:
- a) the ongoing operation and development of cash equity clearing and settlement infrastructure and services; and
 - b) investment decisions in relation to the design, operation and development of new cash equities clearing and settlement infrastructure and services.
- 7.3. ASX Clear has established a Risk Consultative Committee to consult with clearing participants in relation to matters which may impact on the risk management of ASX Clear and clearing participants.
- 7.4. ASX Clear (Futures) has established two committees as follows:
- a) a Risk Consultative Committee to consult with clearing participants in relation to matters which may impact on the risk management of ASX Clear (Futures) and clearing participants; and
 - b) an ASX24 Futures Clearing Committee to consult with clearing participants on ASX24 market contracts and clearing participant business initiatives.
- 7.5. The Consultative Committees are advisory committees established under the ASX Operating Rules. The Committees comprise representatives of clearing participants selected according to criteria approved by the relevant CS board. Members may also include representatives of clients of clearing participants.

- 7.6. The Business Committee and Consultative Committees may make proposals and recommendations to the relevant CS board in relation to matters falling within their respective scope. The CS boards will give due consideration and provide a written response to any recommendations.
- 7.7. The CS boards are also involved in the ASX Group's broader consultation processes on operational arrangements, risk controls and default management rules and procedures. Details of all public consultation and non-confidential submissions are published on the ASX website.

8. Review of Charter

- 8.1. The CS boards will review this Charter annually to keep it up to date and consistent with the CS boards' objectives and responsibilities.
- 8.2. Amendments to the Charter, other than updates for ASX branding or position titles, are to be approved by the CS boards.