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2 October 2013

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Mr Oliver Harvey  
Senior Executive Leader, Exchange Market Operators  
Level 5, 100 Market Street  
SYDNEY NSW 2000

ASX Market Announcements Office  
ASX Limited  
20 Bridge Street  
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## Clearing and Settlement Forum

Today, ASX will hold the inaugural Forum meeting for the Code of Practice for Clearing and Settlement of Cash Equities in Australia (The Code), bringing together the most senior leaders of Australia's financial markets sector.

The Code was developed following the announcement by the Federal Government in February 2013 to defer a decision on any additional licences to offer cash equities clearing services for two years.

The Forum consists of senior representatives from ASX customers and a broad range of other stakeholder groups who will meet at least three times per year to work together on the ongoing development of cash market clearing and settlement infrastructure and services.

The agenda for the first meeting includes an overview of the operational performance of the clearing and settlement services (including netting efficiencies and service availability), details on the financial accounts and profitability of the services, a discussion of regulatory issues facing the industry and a proposed forward work program for the Forum.

Attached is a copy of an ASX presentation on the cash equities clearing and settlement management accounts to be delivered at today's Forum meeting. The Forum papers and further information on ASX's clearing and settlement services for the Australian cash equity market are available on [www.asx.com.au/cs/index.htm](http://www.asx.com.au/cs/index.htm)

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## Cash Equities Clearing and Settlement – Management Accounts

2 October 2013

## **Code of Practice economics**

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### **❑ Cash Market Clearing**

- Includes clearing of listed equities, debt, warrants and ETFs
- Excludes derivatives (exchange traded options)

### **❑ Cash Market Settlement**

- Includes settlement of listed equities, debt, warrants and ETFs
- Excludes issuer services provided to listed companies

### **❑ Management accounts prepared**

- Expense allocation policy developed
- Capital attribution – default risk, operational risk, fixed assets

### **❑ Independent external audit of management accounts**

# Management income statements FY13



	Cash Market Clearing FY13 \$ Million	Cash Market Settlement FY13 \$ Million
Operating Revenue	42.5	42.8
Cash Operating Expenses	10.1	12.3
<b>EBITDA</b>	<b>32.4</b>	<b>30.5</b>
Depreciation and Amortisation	1.5	0.2
<b>EBIT</b>	<b>30.9</b>	<b>30.3</b>
Interest	6.1	3.0
<b>Profit Before Tax</b>	<b>37.0</b>	<b>33.3</b>
Income Tax Expense	(11.1)	(10.0)
<b>Profit After Tax</b>	<b>25.9</b>	<b>23.3</b>
<b>Economic Profit after capital charge</b>	<b>3.4</b>	<b>9.7</b>
<b>EBITDA Margin</b>	<b>76%</b>	<b>71%</b>
<b>Total Capital</b>	<b>221.1</b>	<b>130.4</b>
<b>Return on Equity</b>	<b>11.7%</b>	<b>17.8%</b>

# Revenues FY13



	Cash Market Clearing \$m	Cash Market Settlement \$m
<ul style="list-style-type: none"> <li>As per ASX financial statements</li> <li>Basis point charge for clearing</li> <li>Message fees within settlement</li> </ul>	42.7	40.9
<ul style="list-style-type: none"> <li>Revenue sharing rebate from 1 Jan 2013</li> <li>50% of ASX revenue growth for 2H13</li> </ul>	(1.1)	(0.7)
<ul style="list-style-type: none"> <li>Trade acceptance service/settlement access</li> <li>TAS fee charged to ASX and CHI-X \$275,000 each</li> <li>Settlement access for NSX</li> </ul>	0.6	0.1
<ul style="list-style-type: none"> <li>Participation – annual membership fees for clearing and settlement participants</li> </ul>	0.1	0.4
<ul style="list-style-type: none"> <li>Settlement fail – fees charged to settlement participants for securities not settled on T+3</li> </ul>	-	1.6
<ul style="list-style-type: none"> <li>Technical services – technology connectivity to Clearing and Settlement platforms</li> </ul>	0.2	0.5
<b>Total revenue</b>	<b>42.5</b>	<b>42.8</b>

# Expenses FY13



	Cash Market Clearing \$m	Cash Market Settlement \$m
• Staff	6.8	7.8
• Equipment	1.2	1.8
• Occupancy	1.1	1.2
• Administration	1.0	1.5
<b>Total cash operating expenses</b>	<b>10.1</b>	<b>12.3</b>
• Depreciation and Amortisation	1.5	0.2

## ❑ Operating expenses

- ASX did not previously allocate expenses to clearing and settlement – transparent policy in place
- Direct and indirect costs have been attributed – cost drivers developed
- Expense categories are consistent with ASX statutory accounts

## ❑ Depreciation and Amortisation

- Minimal depreciation as CHES has been fully depreciated; reflects mainly recent system upgrades

# Interest income FY13<sup>1</sup>



	Cash Market Clearing \$m	Cash Market Settlement \$m
<input type="checkbox"/> Clearing risk capital <ul style="list-style-type: none"> <li>• Default risk \$182.5 million</li> <li>• Operational risk \$15 million</li> </ul>	6.6 0.4	
<input type="checkbox"/> Settlement risk capital <ul style="list-style-type: none"> <li>• Operational risk \$102.4m</li> </ul>		3.0
<input type="checkbox"/> Committed standby liquidity facility <ul style="list-style-type: none"> <li>• Provided by ASX Group and charged at market rates (100 bps)</li> <li>• Represents the difference between Liquidity requirement of \$270 million (refer later pages) and available default capital of \$182.5 million</li> </ul>	(0.9)	
<b>Total Net Interest income</b>	<b>6.1</b>	<b>3.0</b>

- Based on 'going forward' position, following recent \$553m equity raising
- No interest expense included on previous debt facility included – was repaid on 28 June 2013

<sup>1</sup> From FY14, will include interest income from Cash Market margin balances.

# Total capital



	Cash Market Clearing (\$m)	Cash Market Settlement (\$m)	Comments
Default Capital	182.5	n/a	<ul style="list-style-type: none"> <li>Confirmed total default fund of \$250m is appropriate</li> <li>Total default fund supports cash equities and options</li> <li>Allocation between equities and options based on stress testing exposures over past 10 years</li> </ul>
Operational/ Business Risk Capital	15.0	102.4	<ul style="list-style-type: none"> <li>Provided by ASX Group and consistent with internal attribution</li> <li>Settlement includes a basis point charge on the value of securities within CHES (average value in FY13 was \$1,297 million)</li> </ul>
Invested Capital	23.6	28.0	<ul style="list-style-type: none"> <li>Original/replacement cost of infrastructure</li> <li>CHES platform allocated between Clearing, Settlement and Issuer services</li> </ul>
<b>Total</b>	<b>221.1</b>	<b>130.4</b>	



# **Default Risk Capital – Cash Market Clearing**

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## **❑ Total size of default fund for ASX Clear**

- Total size of ASX Clear Default fund \$225-250 million is appropriate
- Based on analysis of stress exposures of past 10 years – although recent history has lower peaks
- Basis is Cover 1 plus affiliates

## **❑ Allocation between Cash Clearing and Derivatives**

- ASX Clear supports both cash equities and equity options. While \$250m is available for cash equities it has been attributed to the products separately
- Analysis of the past 10 years shows 73% attributable to cash equities
- All peaks attributable to cash equities

## **❑ Capital charge**

- 10.5% cost of capital applied to total capital minus invested capital that is still being depreciated (this avoids double counting)

# Liquidity – Cash Market Clearing

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## ❑ Total Liquidity Requirement

- Total default liquidity requirement \$300 million remains appropriate
- Analysis of liquidity stress test exposures

## ❑ Allocation between cash equities and derivatives

- Based on size of liquidity stress tests there is an argument to allocate 100% to cash equities
- Apportioning based on liquidity requirements of cash versus derivatives results in 90% allocation to Cash Markets, or \$270m

## ❑ The \$270m of liquidity requirement allocated to the cash market is funded in 2 ways:

- \$182.5m default capital in the clearing house
- \$87.5m liquidity support from ASX Group (cost of liquidity support is reflected in interest income)

## Capital for Cash Market Settlement

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### Operational/Business Risk to support settlement activities

### To develop ASX policy

- Benchmarked to global Central Securities Depositories and other custodians. This shows basis point charges reduce as the value of securities under custody increases
- Reviewed loss scenarios – represent low probability/potential large value risks

### ASX policy

- Minimum level of capital required of \$25 million – supports minimum costs to ‘restart’ operations
- Reducing percentage as value of securities increases

### Total business/operational risk capital in FY13 management accounts **\$102.4 million**

- Average value of cash equities in FY13 was \$1,297m

### Capital charge

- 10.5% cost of capital applied to total capital minus invested capital that is still being depreciated (this avoids double counting)

## Summary

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- Significant effort by ASX to deliver on its commitments under the Code of Practice
- Transparent management accounts, supported by detailed income and expense allocations
- Transparent capital allocation for cash clearing and cash settlement recognising capital is entirely provided by ASX and also supports other activities



## Cash Equities Clearing and Settlement – Management Accounts

2 October 2013