Securities Clearing and Settlement in Australia

Global Payments Week
Sydney
October 3, 2006
Overview

1. Institutional Framework
   - Markets, clearing, settlement

2. Regulatory Framework
   - Minister, ASIC, RBA
   - Financial Stability Standards
1. Institutional Framework
Institutional framework – Pre July 2006

Australian Stock Exchange
- Australian Stock Exchange (equities, derivatives)
- Australian Clearing House
- ASX Settlement & Transfer Corporation

Sydney Futures Exchange
- SFE (derivatives)
- SFE Clearing
- Debt (OTC market)
- Austraclear

Trading
Clearing
Settlement
Institutional Framework – Current
History to Structure

- Legislative monopolies
  - *Corporations Act*; changed in 2002

- Demutualisation
  - ASX in 1998
  - SFE in 2000

- Merger
  - Opposed by ACCC in 1999
  - Not opposed by ACCC in 2006

- Future consolidation of clearing and settlement?
Institutional Framework

Australian Stock Exchange Limited

Trading
- Australian Stock Exchange (equities, derivatives)
- Sydney Futures Exchange (derivatives)
- Debt (OTC market)

Clearing
- Australian Clearing House
- SFE Clearing

Settlement
- ASX Settlement & Transfer Corporation
- Austraclear
ASX Clearing: ACH

- **ACH history**
  - formerly the Options Clearing House (OCH)
  - assumed clearing of equities in 2003

- **Function**
  - acts as central counterparty to ASX equities and derivatives trades
  - margins derivatives, clearing guarantee fund
  - obligations extinguished at settlement
Institutional Framework

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Debt (OTC market)
ASX Settlement: ASTC

• **ASTC**
  - owns and operates the CHESS registry

• **Function**
  - settles ASX trades on behalf of ACH
  - performs registry tasks; corporate actions, transfers
  - settles between participants on DvP Type 3 basis on T+3
  - interbank settlement occurs in RITS daily
SFE Clearing: SFEC

- SFEC
  - mainly futures, also options
- Function
  - acts as central counterparty to SFE trades
  - margins, settlement guarantee fund
  - obligations extinguished at settlement
Institutional Framework

Australian Stock Exchange Limited

Trading:
- Australian Stock Exchange (equities, derivatives)
- Sydney Futures Exchange (derivatives)
- Debt (OTC market)

Clearing:
- Australian Clearing House
- SFE Clearing

Settlement:
- ASX Settlement & Transfer Corporation
- Austraclear
SFE Settlement: Austraclear

• Austraclear history
  - formerly independent; technology provider and depository
  - bought by SFE in 2000

• Function
  - settles OTC debt security transactions
  - performs registry tasks; corporate actions, transfers
  - settles between participants DvP Type 1
  - interbank settlement occurs in RITS RTGS
2. Regulatory Responsibilities
Regulatory Responsibilities

*Corporations Act 2001*

- Provides the regulatory framework for markets and clearing and settlement (CS) facilities
- Requires that markets and CS facilities be licensed
- Sets out specific requirements which CS licensees must meet
- Outlines regulatory responsibilities
Regulatory Agencies

• The Minister
  - Responsible for Licensing of CS facilities and rule changes

• Reserve Bank
  - Responsible for systemic risk aspects of CS facilities

• Australian Securities and Investments Commission (ASIC)
  - Responsible for all other requirements for CS facilities
ASIC

• Responsible for monitoring a number of requirements on CS facility licensees
  - Provide services in a fair and effective way
  - Sufficient financial, technological, human resources
  - Adequate supervisory arrangements

• Once a year must assess each CS facility
  - Report to Minister

• Enforcement power for all requirements
Reserve Bank

- Responsible for monitoring systemic risk issues
  - May determine Financial Stability Standards
- Once a year must assess each CS facility
  - Report to Minister
- No enforcement power – ASIC responsibility
- Payments System Board responsible for Bank policy
Standard Making Power

s827(D): The Reserve Bank may determine standards to ensure that clearing and settlement facilities conduct their affairs in a way that promotes overall stability of the Australian financial system.

- Standards determined in 2003
- Separate standards for central counterparties and securities settlement facilities
General Standard

A CS facility licensee must conduct its affairs in a prudent manner, in accordance with the standards of a reasonable CS facility licensee in contributing to the overall stability of the Australian financial system, to the extent that it is reasonably practicable to do so.
Standard for Central Counterparties

• Supporting Measures for the Standard

  • Legal framework  • Default arrangements
  • Participation requirements  • Risk controls
  • Understanding risks  • Governance
  • Novation  • Operational risk
  • Settlement  • Regulatory reporting
Standard for Securities Settlement Facilities

- Supporting Measures for the Standard
  - Legal framework
  - Participation requirements
  - Understanding risks
  - Certainty of title
  - Settlement
  - External administration
  - Operational risk
  - Regulatory reporting
Differences between Standards and CPSS Recommendations

• Division of responsibilities between regulators
  - Efficiency

• Compliance
  - Contravention of *Corporations Act*
Regulation in practice

- **Compliance with the Standards**
  - CS facility obligation
- **Annual assessments**
  - Reported to CS facility and the Minister
- **Quarterly Reports**
  - Other ongoing reporting requirements
- **Information sharing with ASIC**
  - Formal and Informal
  - Memorandum of Understanding