Response Summary:

Cash Equities Clearing and Settlement Services Pricing Policy Consultation Paper

ASX invites responses to its Cash Equities Clearing and Settlement Services Pricing Policy Consultation Paper by 25 October 2024.

This response form is split into multiple pages. To the extent possible, please answer all the questions presented to you in the form.

If you would like to work on your response over multiple sittings, please ensure you access this link from the same device.

You will have an option to download a PDF copy of your responses **after** you have clicked 'Submit' on the last page.

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ASX is available to meet with interested parties for bilateral discussions.

For general enquiries, please contact EquityPostTrade@asx.com.au.

About you

Q2. Would you like your response to be confidential?

- No

Q3. Please provide the information below:

Name	Tracey Lamb
Email	[redacted]
Organisation	National Australia Bank

Q4. Please select your organisation type (select all that apply)

- Clearing and Settlement participant

Materiality threshold

Q109. Q1. Do you agree with the proposal to implement a materiality threshold(s)?

- Conditionally agree

Q110. Please provide context for your response.

The proposed change to the pricing policy, presents as being a cost recovery model, and with the removal of the revenue sharing aspect currently in place, the incentive for tightly controlled underlying costs is also removed.

There is also a lack of clarity of the potential immediate impact to pricing (from June 25 as proposed) for simply moving to this model, and also the longer term impact when the CHESS replacement system is implemented, with probable higher ongoing costs than the current run costs of CHESS. Given this is a significant capital investment it is likely to greatly increase the future underlying costs that feed into the BBM, however there is no indication of this in the consultation paper.

Whilst we agree with the concept of a materiality threshold(s) in order to minimise administration overhead for both participants and ASX, we are concerned with the loss of incentive for control of underlying costs, and the lack of clarity of the impact to current pricing in both the immediate and longer term.

Q111. Q2. Should the materiality threshold below the revenue requirement (for an under-recovery process), and the materiality threshold above the revenue requirement (for an over-recovery process) be the same, or should there be a different threshold for each, i.e. two thresholds?

- The same materiality threshold for under- and over-recovery

Q112. Please provide context for your response.

For consistency it is appropriate for the same materiality threshold to be applied to both.

However, it is proposed that the policy is reviewed every three years, but given this is a new policy, it would be beneficial for a review trigger if for two consecutive years the materiality has been within say 10% of the threshold.

Q113. Q3. Do you agree with the proposal to implement a materiality threshold dollar value amount of $1 million for both under- and over-recoveries relative to the revenue requirement?

- Agree

Q114. Please provide context as to why you Agree with this materiality threshold.

Given the $1m threshold is based on 97% of users receiving at least $10, this is an acceptable threshold.

Treatment Options for Under- and Over-Recoveries

Q21. Q4. Which of the two options for an under- or over-recovery beyond the proposed materiality threshold are you most in favour of?

- Option 2

Q22. Please provide context for your response.

Option 2 as it provides clearer cost provisioning for users.

Option 1 benefits the user in the short-term, whereby over-recovered funds are reimbursed within four months of the review, but they are not immediately out of pocket for any amounts owed in a given year. However, it is not clear from the paper if there is a maximum number of years this would occur for, ie. what happens if for three consecutive years there are under-recoveries, but not high enough to reach the 5% cumulative trigger for a price review? Will it continue until the 5% is reached, and then be required to be repaid by the users? This may cause an unfavourable cost impact in a future financial year for the user.

Q23. Q5. Are there any other aims, objectives or considerations which we should take into account in determining which under- or over-recovery treatment option to proceed with?

As previously mentioned, the greater concern is around the potential causes of under-recovery and the removal of incentive for ASX to tightly manage the underlying costs, with the removal of revenue sharing.

With the current proposal, there should be additional consideration around the trigger for under-recovery payments, eg. when there is not an over-recovery within x number of years to offset the under-recovery.

Proposed Fees Review Triggers

Q87. Q6. Do you agree with the proposal to implement the first ‘fees review trigger’ as described?

- Agree

Q88. Please provide context for your response.

In principle given 5% variance on FY24 revenue requirement equates to $9.4m, this seems material and a reasonable trigger.

Q89. Q7. Do you agree with the proposal to implement the second 'fees review trigger' as described?

- Agree

Q90. Please provide context for your response.

Yes, as 5% over any period seems a reasonable trigger for a fee schedule review

Q91. Q8. If implemented as proposed, do you consider that the fees review triggers will strike the optimal balance between ensuring that the CS services fee schedules consistently align with annual revenue requirements, and minimising the frequency of adjustments to those fee schedules?

- No

Q92. Please provide context for your response.

With no incentive for ASX to control underlying costs, given the proposed pricing model is essentially a cost-plus recovery model, there is considerable concern that the 5% (or similar) trigger could potentially be reached every year, resulting in ever-increasing costs for the participants, and not minimising the frequency of adjustments to fee schedules.

Q93. Q9. How will your organisation be impacted by the potential frequency of adjustments to the CS services fee schedules based on the operation of the two proposed fees review triggers? Please justify your response, including whether the impacts would be the same for a downward vs an upward adjustment to the CS services fee schedules.

The 5% triggers apply to both upward and downward potential fee adjustments, so may be as frequent as annually, or longer. Annual budgets are generated based on predicted market activity, contractual obligations and CPI, so there is always a degree of movement annually.

The impact of potential annual fee changes is not significant from a timing perspective, the concern is more about the potential for unpredictable annual increases due to the potential for significant increases in underlying costs feeding into the BBM and generating higher required revenue.

Q94. Q10. Should ASX consider implementing any other fees review triggers?

- Not applicable

Intended Commencement Date and Transitional Measures

Q35. Q11. Do you support a commencement date of the new Policy of 1 January 2025?

- Not supportive

Q36. Please provide an explanation for your support or alternative suggestion(s).

Given all aspects of the policy are anchored to the financial year, ie. 1 July – 30 June, it would be appropriate to commence the new policy from 1 July 2025 at the earliest.

Q117. Would you like to share any final thoughts?

The proposed pricing policy, and the underlying calculation models, essentially results in a cost recovery model for clearing and settlement services. Our concern is that the removal of revenue sharing increases the risk of underlying costs escalating as the incentive for ASX to control these costs is removed.

We do not have clarity around the short-term cost to participants of moving to this model, ie. will there be an immediate uplift in the pricing schedule from 1 July 2025 due to the proposed underlying costs feeding into the BBM not being covered by the current pricing model. We also don't have clarity around the longer-term impact of the CHESS replacement implementation, which could potentially result in a significant price uplift given the capital investment.

This questionnaire is geared towards feedback for process aspects of the proposed model, eg. materiality, review triggers etc, however the risk of uncontrolled cost, and therefore price, escalation is the greatest concern as a participant.

You've reached the end of the questionnaire. Please review your responses by clicking the "Back" button below, and click "Submit" when finalised.

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