Cash Equities Clearing, Settlement and Issuer Services

Pricing Policy Consultation Paper: Response to Feedback

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1. Introduction

1.1. Overview

On 16 September 2024, ASX Clear and ASX Settlement ('**ASX** or '**we**') released a consultation paper proposing to adopt a new pricing policy (the '**Policy**') for our cash equity clearing and settlement services (respectively provided by ASX Clear and ASX Settlement) and issuer services provided by ASX Settlement (collectively referred to as '**CS services**').

The Policy is designed to ensure that the revenue we expect to receive from CS services reflects the efficient costs of providing those services, including a return on investment commensurate with the commercial risks involved. The consultation paper introduced, as the Policy's cornerstone, the Building Block Method ('**BBM'**) that will be used to calculate a revenue requirement for each year, reflecting the efficient costs of providing CS services. The consultation paper also explained that the Policy will introduce new processes designed to provide greater transparency and assurance that users are paying no more than necessary for CS services.

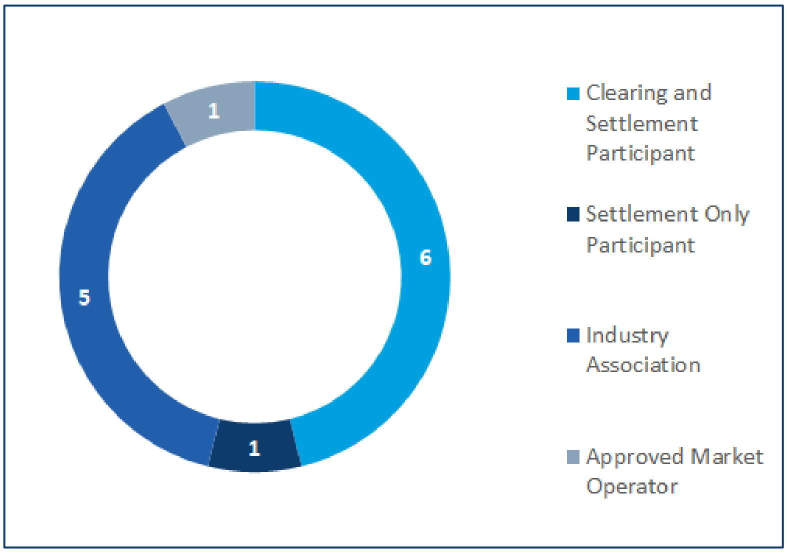
We sought stakeholder feedback on the key elements of the Policy, including its commencement date, proposed materiality thresholds, treatment options for under-recoveries and fee review triggers ('**FRTs**'), and we asked respondents to provide us with any other relevant feedback they deemed appropriate.

The purpose of this paper is to summarise the feedback, provide our responses with further supporting information, and set out a clear and transparent process and timeline for the remaining steps in finalising the Policy and related ancillary documentation. Our aim is to ensure that stakeholders can clearly see the substantive amendments that we have made to the Policy to take into account their feedback, and have confidence in our implementation and ongoing operation of the Policy from its commencement. The updated Policy can be found in Annexure A of this response paper. This updated Policy remains subject to the final approval of the Boards of ASX Clear and ASX Settlement.

1.2. Submissions Received

Following a six week consultation period, we received a total of 13 written responses to the consultation paper, four of which were confidential. Submissions were received from Clearing and Settlement Participants ('**CS Participants**'), a Settlement Only Participant, industry associations and an Approved Market Operator ('**AMO**'), as shown in Figure 1. All non-confidential submissions are published on ASX's website.

Figure 1: Consultation Paper Responses by Stakeholder Cohort



We thank everyone who took the time to respond to the consultation paper.

1.3. Stakeholder Engagement

We have had ongoing engagement with stakeholders, both during and following the consultation period. Two industry webinars were held in September and October 2024, to discuss the Policy in further detail (including with worked examples) and give stakeholders an opportunity to ask any questions. We also engaged with multiple governance forums on the design elements of the Policy, including the Cash Equities Clearing and Settlement Advisory Group (the '**Advisory Group**'), the ASX Business Committee (the '**Business Committee**'), the ASX Risk Consultative Committee (the '**RCC**') and the relevant boards of ASX. We have also continued to keep the relevant regulators informed of this stakeholder engagement and the development of the Policy, including the changes made in response to industry feedback.

We have greatly benefitted from this engagement with our customer and stakeholder community and take this opportunity to thank them for their views and suggestions which have been instrumental in shaping the updated Policy's design and operation.

1.4. Regulatory Developments

An important development to note since the publication of the consultation paper is the release of the *ASIC CS Services Rules 2025* (the '**Rules**') on 24 February 2025, with most requirements under those Rules taking effect from 24 May 2025. Where appropriate and/or relevant, this response paper addresses the Policy's operation in the context of those requirements, and we reiterate our commitment to complying with all relevant regulatory expectations and obligations.

2. Key Themes of the Feedback and ASX's Responses

2.1. Commencement Date and Transitional Measures

2.1.1 Original Proposal

In the consultation paper, we proposed that the Policy commence on 1 January 2025, with the first annual review of actual revenue against the revenue requirement to be conducted at the end FY 2025, pro-rated to take into account relevant costs and revenue from 1 January to 30 June 2025.

We also committed to review the Policy when the Rules are published, to determine if any amendments need to be made to ensure that the Policy is compliant. In any case, we proposed that the Policy be reviewed every three years.

Finally, we proposed to end the Revenue Sharing Scheme given the Policy mechanisms to return over-recovery amounts to customers. We explained any Revenue Sharing Scheme payments for the period 1 July 2024 to 31 December 2024 would still be made.

2.1.2 Feedback

Respondent feedback was strongly in favour of deferring the proposed 1 January 2025 commencement date, noting that it would be more beneficial to simplify the Policy's operation by aligning its commencement with the financial year.

Respondents also suggested deferring the commencement date to allow for further consultation on certain aspects of the Policy's design and operation. Stakeholders requested further information and consultation in a number of areas, including:

- The fee adjustment process and cycle for CS services going forward;
- The timing for any new fee introductions;
- The international pricing comparison required in the Rules, with one respondent suggesting that ASX disclose the entities to be included in the comparison and the reasons for their selection;
- Further visibility on cost and revenue projections over the coming years (including any associated pricing impacts); and
- Publication of the ASX Cost and Revenue Allocation Policy (the '**Allocation Policy**').

Some respondents requested clarity on whether fees for CS services would be changing at the commencement of the Policy.

2.1.3 ASX Response

We agree that CS services customers and stakeholders will benefit from aligning the Policy's commencement with the financial year. Accordingly, we have deferred the commencement date to **1 July 2025**. This means that the first annual review under the Policy will occur following the end of FY 2026, and no pro-rating will be necessary.

We also agree that customers and stakeholders will benefit from a better understanding of how related information and documentation interoperate with the commencement of the Policy. With respect to the fee adjustment process and cycle for CS services and any new fee introductions, the Policy now includes further detail on the fee review process and timeline, which includes commitments by ASX on the fee adjustment cycle and notification periods before any adjusted fees take effect. For further information on this process, please refer to section 2.5 below.

We are well progressed in relation to the international pricing comparison work, and note that the Rules require a CS services provider to prepare and publish the first comparative report by no later than 12 months after the Rules commence. It is our intention that the expert regulatory economist that is undertaking this work completes it towards the end of this year, and we confirm that the report will include the list of international financial market infrastructures in the comparator group. This report and those that follow every five years (as required by the Rules) will be taken into account in any future fee reviews under the Policy.

Much of the feedback requesting greater visibility of cost projections was in relation to expected costs for Release 2 of the CHESS Project, which had not been published at the time of the consultation paper's release. We note that these expected project costs were announced on 26 November 2024.

We also confirm that while we provided a summary of the Allocation Policy as an annexure to the consultation paper, the full Allocation Policy will be published before the Policy commences, and that it will be independently assured. This will help stakeholders to understand how both direct and indirect costs are attributed to CS services.

In relation to our proposal to review the Policy every three years, we did not receive any feedback. Having further considered the proposal in the context of the other feedback received and amendments made to the Policy, this proposal has been adjusted so that a review of the Policy will occur every five years.

Finally, we reiterate that there will be no adjustments to the pricing levels of any CS services at the commencement of the Policy, with any potential material fee adjustments beyond that date to be the product of the outcomes of both a fee review (which would only occur if a FRT occurs) and prior consultation with customers and stakeholders. Given the updated, documented process and timeline for conducting a fee review and associated timing commitments in the Policy, in effect, this means that the earliest possible date that any adjustments to CS services fee levels could take effect would be 1 July 2027 (subject to defined exceptions which may result in commencement of a review).

We do expect some other non-price related, documentary changes to the CS services fee schedules over the coming months, for example, to remove the provisions relating to the Revenue Sharing Scheme and Issuer Services discounts (which will cease operation when the Policy commences). We will issue respective market notices advising of the changes prior to 1 July 2025.

2.2. Cost and Revenue Management

2.2.1 Original Proposal

In the consultation paper, we reiterated that ASX Limited continues to adopt a prudent approach to managing its expenditure and cost base to meet the expectations of stakeholders, and that there will be no change to this prudent cost management approach when the new Policy is implemented, nor is it the intent of the Policy to change this approach.

2.2.2 Feedback

Cost Management

While ASX Limited's continuing commitment to prudent cost management was positively received, a majority of respondents took the view that a more robust, formal cost and capital control mechanism is needed in the Policy itself. One respondent noted an example of another cost recovery model in the Australian market where, in its view, a lack of incentive to control costs has resulted in adverse financial consequences for participants in the industry in which the respondent operates. Respondents also encouraged us to maintain a partnership model with customers under the Policy's operation going forward, citing the Revenue Sharing Scheme as a good example of enabling the industry to share in revenue growth.

It was strongly suggested that we consider introducing some form of efficiency incentive mechanism, such as an 'efficiency dividend', into the process for determining the revenue requirement under the BBM, to ensure that costs are minimised.

Other Feedback

A small number of respondents also called for greater visibility and input into ASX's cost and capital investment decisions with respect to CS services, and two respondents also called for the Allocation Policy to be published.

Other respondents expressed a desire for further visibility on any modelling of future operational and capital costs and revenues for CS services over the coming years (including for the CHESS Project), and any associated impacts on pricing, before the Policy is implemented.

2.2.3 ASX Response

Cost Management: Efficiency Scheme

We acknowledge and understand the expectations of customers and stakeholders that a formal cost management measure be built into the Policy, and agree that doing so will strengthen stakeholders' confidence in our efficient management of operating costs. Therefore, the Policy now incorporates an 'efficiency scheme' (the '**scheme**'), to be applied as part of the BBM.

The scheme will operate by incentivising ASX to pursue efficiency gains by reducing operating costs over time. Under the scheme:

- A baseline level of expenditure will be established for ASX's cash operating costs, based on the prior year's expenditure and adjusted for inflation and any one-off items;
- Where ASX has reduced cash operating costs below the baseline at the end of a financial year, there will be a sharing of the efficiency gain. 50% of the gain will be retained by ASX Limited through an upward adjustment to the annual revenue requirement for that financial year, while the remaining 50% will be passed through to customers;
- Where ASX's cash operating costs have increased above the baseline at the end of a financial year, there will be a sharing of the efficiency loss. 50% of the cost increase will be borne by ASX Limited through a downward adjustment to the annual revenue requirement for that financial year, while the remaining 50% will be passed through to customers; and
- For the following financial year, the 'baseline' level of cash operating costs will reflect and incorporate any efficiency gain or loss from the previous financial year. For example, if an efficiency gain has been realised in the prior financial year, the full amount of that efficiency gain will be reflected in a lower baseline for the following year.

Operation of the scheme is illustrated in the example below. In this example, the scheme commences in year T, and therefore there is no baseline or adjustment for year T–1. For the purposes of simplifying this illustrative example, it is assumed that no adjustments are required to baseline expenditure for inflation or one-off operating expenditure items.

In year T–1, actual operating expenditure by ASX was $100m.

In year T, ASX sets its target operating expenditure for year T at $105m. At the end of the year, actual operating expenditure came in at $95m (i.e. $10m lower). Half of this saving is allocated to CS services customers via the BBM, and the remaining half is retained by ASX. The total operating costs reflected in the revenue requirement for year T is $100m (i.e. $95m + $5m).

The following year, T+1, ASX sets its target operating expenditure for year T+1 at $98m. At the end of the year, actual operating expenditure came in at $102m (i.e. $4m higher). Half of this over-spend is allocated to CS services customers via the BBM, and the remaining half is borne by ASX. The total operating costs reflected in the revenue requirement for year T+1 is $100m (i.e. $102m - $2m).

Table 1: Efficiency Scheme Illustration

Year	Target operating expenditure ($m)	Actual operating expenditure ($m)	Efficiency scheme adjustment (50% of efficiency gain / loss) ($m)	Total adjusted operating costs reflected in BBM ($m)
T–1	-	100	-	-
T	105	95	+ 5	100
T+1	98	102	- 2	100

This mutualisation of efficiency gains and losses between ASX and its customers will maintain the partnership approach called for by respondents. Under the Revenue Sharing Scheme customers were able to share in the benefits of revenue growth. The main difference between the Revenue Sharing Scheme and the Policy's efficiency scheme will be that the previous Revenue Sharing Scheme enabled users to share in revenue growth, while the new efficiency scheme under the Policy will enable users to share in the benefits flowing from cost reductions and efficiencies.

Separate to the cost efficiency scheme, customers will also continue to share in the benefits of revenue growth, to the extent that this leads to over-recovery compared to the revenue requirement. The BBM will operate by reimbursing any material over-recoveries to customers in full, ensuring that excess revenue beyond the amount permitted in the BBM is appropriately returned. For further information on the treatment of material over-recoveries, refer to section 2.4 below.

The efficiency scheme will operate in conjunction with the Allocation Policy. The Allocation Policy will set out the manner in which costs will be allocated to CS services functions in the preparation of the CS services management accounts.

Other Feedback

We confirm that ASX will continue to share relevant and material capital investment decisions with the existing governance committees and forums, including the RCC, Advisory Group, Business Committee and relevant ASX Boards.

As stated earlier, there will be no change to the prices for any CS services at the commencement of the Policy, and the earliest possible date at which any adjusted fees could take effect would be 1 July 2027 (subject to defined exceptions which may result in commencement of a review). The expected CHESS Project costs were disclosed on 26 November 2024, and the existing ASX Limited capital expenditure guidance remains unchanged, providing stakeholders with clarity on the expected future capital costs that they have requested.

2.3. Rate of Return

2.3.1 Original Proposal

The consultation paper set out our proposal to apply standard regulatory methods to determine the rate of return to apply within the BBM. Under the BBM framework, a rate of return is needed to calculate the return on capital building block.

Annexure B of the consultation paper provided further information on the parameters and methods used to calculate the rate of return. We explained that market parameters would be determined in line with the Rate of Return Instrument ('**RORI**') published by the Australian Energy Regulator ('**AER**'). We also explained how the asset beta of 1.2 was estimated, to reflect the risk faced in providing CS services.

2.3.2 Feedback

Four respondents sought further information on the proposed asset beta of 1.2, noting that it seemed high compared to regulated utility businesses, and suggested it be reconsidered. Two of those respondents believed that our risk exposure is limited given our current status as the sole provider of clearing and settlement services in the Australian cash equity market. One of these respondents suggested an asset beta nearer to 1 was more justified. We also received a request to disclose the comparable entities used in the estimation of the beta estimate.

One respondent noted that should ASX proceed with its 'Cover 2' proposal to require Clearing Participants to contribute to funding the ASX Clear (Futures) Default Fund, the asset beta should be lower.

2.3.3 ASX Response

To address the concerns of these respondents who commented on the asset beta, we have provided further information below (which supplements the information in Annexure B of the consultation paper) on how it was derived.

The estimation and empirical analysis was conducted by a third party expert regulatory economist that specialises in providing advice on economic regulation and competition economics in infrastructure sectors. The asset beta is intended to reflect the risk associated with the provision of CS services relative to the market overall.

The method used to estimate the asset beta reflects the standard methods adopted by Australian infrastructure regulators. This includes empirical estimation of the covariance of returns for comparable businesses with the market overall.

While the method is aligned with standard practice, the resulting estimate for CS services is likely to be different to the asset beta for other regulated infrastructure businesses. This is because the risk faced in providing CS services is very different to the risk faced in operating a utility business based around physical infrastructure (e.g. an electricity grid or rail network). Some important differences include:

- The management of risk arising from the default of a CS Participant or Settlement Only Participant;
- Market activity, traded value and initial public offering activity, which determine the demand for CS services (and therefore revenue);
- The fast-moving technology environment that ASX operates in, which creates a material risk of asset redundancy or bypass; and
- A greater reliance on intangible assets.

As explained in Annexure B of the consultation paper, estimating the asset beta for CS services involved two steps:

ASX Limited beta estimate

The asset beta for the overall activities of ASX Limited was estimated based on an average of the empirically observed asset betas for a sample of security and commodity exchange businesses that undertake similar activities in developed economies meeting minimum liquidity and size criteria, and for which a reliable asset beta estimate is possible. The asset betas for these entities were derived from over ten years of data, excluding the Covid-19 pandemic. The 12 entities can be found in Table 2 below:

Table 2: Sample Entities used in Estimating the ASX Limited Asset Beta

Name	Country
ASX Limited	Australia
TMX Group Ltd	Canada

Name	Country
Euronext NV	France
Deutsche Börse AG	Germany
Hellenic Exchanges – Athens Stock Exchange SA	Greece
Hong Kong Exchanges & Clearing Ltd	Hong Kong
Japan Exchange Group Inc	Japan
Warsaw Stock Exchange	Poland
Singapore Exchange Ltd	Singapore
Bolsas y Mercados Espanoles SHMSF SA	Spain
London Stock Exchange Group PLC	United Kingdom
Nasdaq Inc	United States

CS services beta estimate

As noted in the consultation paper, while the asset beta for ASX Limited's overall activities is an appropriate starting point, it is necessary to consider how the asset beta of CS services compares to the overall activities of the group. This is necessary because CS services represent a relatively small component of the group's overall activities, accounting for approximately 20% of revenue.

A 'three lines of analysis' approach was undertaken to assess how the asset beta of CS services may compare to that of non-CS services:

1. A first principles analysis, seeking to identify what economic principles would suggest about the relative asset betas of each subcomponent of ASX Limited's activities – in particular, taking into account the major drivers of revenue for the CS and non-CS services.
2. An event study, assessing how the revenue of each of the subcomponents reacted to the Global Financial Crisis ('**GFC**') of 2008-09. This was a major macroeconomic event, therefore it sheds light on the relative degree of sensitivity of the different subcomponents to major macroeconomic events, which is central to systemic risk.
3. Empirical analysis, namely estimating the degree of sensitivity of changes in historical CS and non-CS services revenue to changes in the overall market (using two proxies for the market). These empirical estimates are referred to as 'accounting betas' and, while they are not direct estimates of asset betas, they may provide information on relativities in asset betas.

The first principles analysis indicated that the revenue from each of the CS services components can be expected to bear a strong positive relationship to the state of the market. While it indicated that some segments of ASX's non-CS services revenue (such as Listings, Cash Market Trading and Futures and OTC Clearing) will have medium or high systemic risk (asset beta), a material component of non-CS revenue is expected to have low systemic risk. Therefore, the first principles analysis indicated that CS services would exhibit higher systemic risk than the non-CS services and therefore have a higher asset beta, however it did not shed light on the magnitude of this difference.

The expert regulatory economist then examined two empirical indicators of the relative magnitude of the CS and non-CS services beta:

- A GFC event study: the analysis showed that during the GFC, CS services revenue was much more sensitive to market movements than non-CS revenue. This was particularly evident in the annual change between FY 2008 and FY 2009. The 23.1% fall in CS services revenue in this period almost matched the 24.2% fall in the S&P/ASX 200 Index. By contrast, non-CS revenue fell only 7.7% in the same period. Therefore, evidence from this event study corroborated the first principles analysis.

- Accounting betas: the expert regulatory economist estimated an accounting beta for the CS and non-CS services components of ASX Limited by separately regressing six-monthly changes in revenue against changes in the EBIT of the S&P/ASX 200 Index and that index, over the period 2008 to 2023 (excluding the Covid-19 pandemic period). The estimates suggested that the CS services beta may be 73% to 133% higher than the non-CS services beta. The accounting beta estimates were statistically significant, making it very unlikely that the observed differences are simply due to chance.

Possible combinations were then considered, given an asset beta for ASX Limited of 0.85 and revenue contribution from CS services of approximately 20%. The empirical evidence suggested that the asset beta for CS services could plausibly be as high as 1.5 – this would be consistent with the evidence from accounting betas and would imply an asset beta for non-CS services close to (but slightly higher than) the market average. Therefore, it was considered that 1.2 is a reasonable and likely conservative estimate of the CS services asset beta.

2.4. Materiality Threshold and Treatment Options for Under-Recoveries

2.4.1 Original Proposal

The consultation paper introduced and proposed the concept of a materiality threshold for payments in the event of over or under-recovery, noting that the most important considerations behind implementing a materiality threshold(s) are:

- Triggering payments to or from customers for an immaterial difference between the actual revenue and the revenue requirement in a particular financial year may result in more administrative overhead for ASX and users than benefit gained; and
- That the distribution of any over-recovery amount needs to be large enough that the majority of customers will receive a material rebate.

We proposed a materiality threshold dollar amount of $1 million relative to the revenue requirement, for both under and over-recoveries, noting that setting the materiality threshold at this amount would result in 97% of ASX customers receiving a rebate of at least $10 in a material over-recovery scenario. We sought stakeholder views on whether they agreed with the concept of a materiality threshold, whether such a threshold should be the same for an under-recovery and an over-recovery, and whether $1 million was an appropriate threshold amount.

Assuming stakeholders agreed with the proposed $1 million materiality threshold for both under and over-recoveries, we then proposed two options for treating under-recoveries:

1. Capitalising any amount of under-recovery by ASX by holding it to offset and be netted against any future over-recovery (Option 1 as proposed in the draft Policy); or
2. Invoicing customers for a material under-recovery (Option 2).

Note that the materiality threshold for an under-recovery would not apply under Option 1, and that under either option, we will always return material over-recoveries to users in proportion to their weighted contribution to revenue. Our aim, as stated in the consultation paper, remains to strike the optimal balance between maximising user efficiencies and minimising administrative overheads.

2.4.2 Feedback

Respondents broadly agreed with the concept of a materiality threshold to minimise administrative burden. Similarly, with the exception of one respondent, respondents supporting Option 2 were broadly in favour of adopting the same materiality threshold for an under-recovery and an over-recovery, noting that this appeared to be a sensible approach.

While three respondents supported the proposed materiality threshold amount of $1 million, two respondents viewed it as too low and suggested different, recalibrated thresholds of $4-10 million (for under-recoveries under Option 2) and

$2-5 million (for over-recoveries). Another respondent suggested applying a materiality threshold to the cumulative balance of under or over-recovery across multiple years, to reduce the frequency of cash movements between ASX Clear and ASX Settlement and customers. In general, respondents took the view that a rebate of $10 (in a material over-recovery scenario) would not be meaningful.

Two respondents also suggested that ASX consider percentage-based thresholds instead of dollar value thresholds.

Respondents had reasonably evenly split views about whether we should proceed with Option 1 (where ASX would capitalise any under-recovery and no materiality threshold would apply), or Option 2 (where ASX would invoice users for each year of under-recovery exceeding the materiality threshold):

- Reasons given in support of Option 1 were that it maximises the chance that under and over-recoveries offset each other over time and thereby minimises administration, and that additional payments are difficult where budgets are already finalised for the following year.
- Reasons given in support of Option 2 were that it allows for costs to be provisioned more clearly and 'trued up' quickly and passed on to underlying clients, and that it avoids a future unfavourable cost impact in the case of multiple years of under-recovery.

2.4.3 ASX Response

Given the strong support for the materiality threshold, we have retained this concept in the updated Policy. However, in response to the feedback recommending that its level and what it is based on be reconsidered, we have conducted further internal analysis and calculations which now lead us to believe that a percentage-based threshold will strike a better balance between minimising administrative burden and ensuring meaningful rebate amounts than a value-based threshold. It will also be more effective in avoiding an inadvertent breach of the threshold due to normal year-to-year, volume-related revenue fluctuations, by being set more directly and proportionally to the revenue requirement.

With views reasonably evenly split between Option 1 and Option 2, and with customer fairness and payment predictability being the primary drivers of a preferred outcome, we have proceeded with Option 1 as proposed in the draft Policy, where any under-recovery will be capitalised by ASX and held to offset and be netted against any future over-recovery. Proceeding with Option 1 also means that there will be no under-recovery materiality threshold.

With these outcomes in mind, we have adjusted the materiality threshold for an over-recovery, from a $1 million value-based threshold, to a 5% percentage-based threshold.

As an example, using the revenue received by ASX for cash market CS services in FY 2024 of $187.5 million as a proxy for a hypothetical revenue requirement, this new 5% materiality threshold results in a higher threshold point of around $9.4 million, and means that 92% of CS services customers will receive a rebate of $100 or more in a material over-recovery scenario, compared to 97% receiving $10 at the $1 million threshold originally proposed.

As the consultation paper had originally proposed that the proportion of 5% relative to the revenue requirement be the point at which the FRTs are set, we have made consequential changes to the FRT points, as detailed in section 2.5 - Fee Review Triggers.

2.5. Fee Review Triggers

2.5.1 Original Proposal

In the consultation paper, we proposed a requirement for ASX to conduct a review of the CS services fee schedules when either or both of two quantitative FRT events occur: (1) The under or over-recovery amount in a single financial year is greater than 5% relative to the revenue requirement; or (2) the cumulative total amount of under-recovery or over-recovery over any period of time is greater than 5% relative to the revenue requirement for the most recent financial year.

We asked stakeholders for their feedback on:

- Whether they agree with the proposed FRTs;
- Whether they believe the FRTs 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;
- How they will be impacted by the potential frequency of adjustments to the CS services fee schedules based on the operation of the two proposed FRTs; and
- Whether we should consider implementing any other FRTs.

2.5.2 Feedback

Detailed and constructive feedback was received on the two proposed FRTs and the associated fee review process, and stakeholders raised a number of different points. While respondents generally agreed with, and were supportive of, the overall FRTs concept, it was also apparent from the feedback that ASX should further clarify and elaborate on what would happen if a FRT is hit, how the fee review process is intended to work, and the magnitude, scope and implementation horizon of any potential adjustments to the fee schedules. Respondents also made a number of suggestions about how the FRTs regime could be improved.

Feedback and suggestions included:

- Being more specific about the underlying business drivers and targeting of pricing adjustments within and across the three CS services businesses following a FRT being hit;
- Clearly distinguishing between 'natural' market fluctuations and 'structural', fundamental drivers behind cost and revenue movements in a fee review (with potentially different FRT points for each), and providing further information on cost modelling if a proposal is made to adjust the fee schedules;
- Changing the scope of the first FRT to prospectively take account of expected future movements in costs and revenue, and including this within the scope of the second FRT;
- Setting the second FRT at a higher level to further encourage prudent cost management;
- Amending the second FRT such that it takes into account the difference between revenue received and the revenue requirement over a rolling, multi-year period;
- Up to a three-year time lag between a decision to adjust the fee schedules and the new fee schedules coming into effect;
- Including both quantitative and qualitative FRTs, such as when:
    - The latest international pricing comparative report shows a significant difference in pricing compared to other markets;
    - Significant market structure changes occur;
    - A material shift occurs in the risk capital and settlement standby facilities assigned to clearing and settlement;
    - T+1 settlement is adopted;
    - The final scope, timing and schedule for Release 2 of the CHESS Project is known; and
    - The CHESS replacement system is delivered;
- A concern that a cumulative build-up of under-recoveries may result in a significant and sizeable one-off change to fees following a FRT being hit, and therefore a smoothing mechanism for such cumulative under-recoveries before the second FRT is hit would be appropriate; and
- A desire to avoid significant and/or more frequent adjustments to the fee schedules on an ongoing basis.

2.5.3 ASX Response

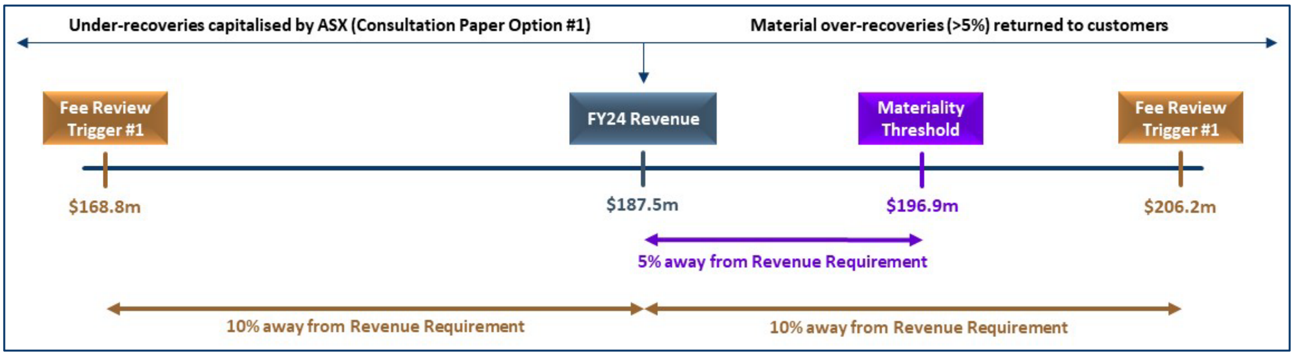
We acknowledge and agree with stakeholder feedback that called for more detail around the fee review process and additional FRTs to be set out in the Policy. We have made significant adjustments to the FRTs and fee review process, with the objective of ensuring that users of CS services and their stakeholders can clearly understand how the regime is intended to operate, how ASX will communicate with them when and after a FRT is hit, and what information they should expect to receive at each stage of the process. This is explained in further detail below.

Amended Quantitative FRTs

Given the modifications made to the treatment of material over-recoveries by increasing the materiality threshold to 5% (as discussed earlier), we have amended the originally proposed 5% FRTs to set them at 10% relative to the revenue requirement.

Using the revenue received by ASX for cash market CS services in FY 2024 of $187.5 million as an example for a hypothetical revenue requirement, the new 5% materiality threshold and 10% FRTs are depicted in Figure 2 below.

Figure 2: Operation of the Final Materiality Threshold and Quantitative Fee Review Triggers



New Qualitative FRTs

ASX also agrees with the suggestions from respondents to introduce qualitative FRTs to operate alongside the quantitative FRTs. We have introduced new FRTs which account for:

- The emergence or likely emergence of a committed, competing CS services provider;
- A significant change in the regulatory environment for cash equities in Australia;
- A significant change in the market structure for cash equities in Australia (for example, the adoption of T+1 settlement);
- An actual or expected material change in the revenue requirement or expected revenue in a future year (whether in response to a significant market event or not) such that at least one of the quantitative trigger events above would be expected to occur;
- A significant structural change or upgrade to, or impact on, ASX's business model or operating structure for CS services; or
- A review not otherwise having been conducted in the last five years (to act as a backstop, and in response to requests in bilateral meetings with stakeholders for such a backstop to be introduced).

The combination of the amended quantitative FRTs and the new qualitative FRTs will better enable us to distinguish whether a FRT has been hit because of natural fluctuations or structural changes, as was suggested by some respondents.

Comprehensive Fee Review Process

To address the requests of stakeholders for further clarity on how the fee review process is intended to work, the Policy now documents a detailed, comprehensive process for how a fee review is conducted (see Section 7 of the Policy). This includes:

- Minimum timeframes for disclosures to customers;
- The matters that ASX will have regard to in conducting the fee review;
- The level of information that will be published; and
- Minimum time commitments before any adjusted fee schedules takes effect.

The process for conducting a fee review will be as follows:

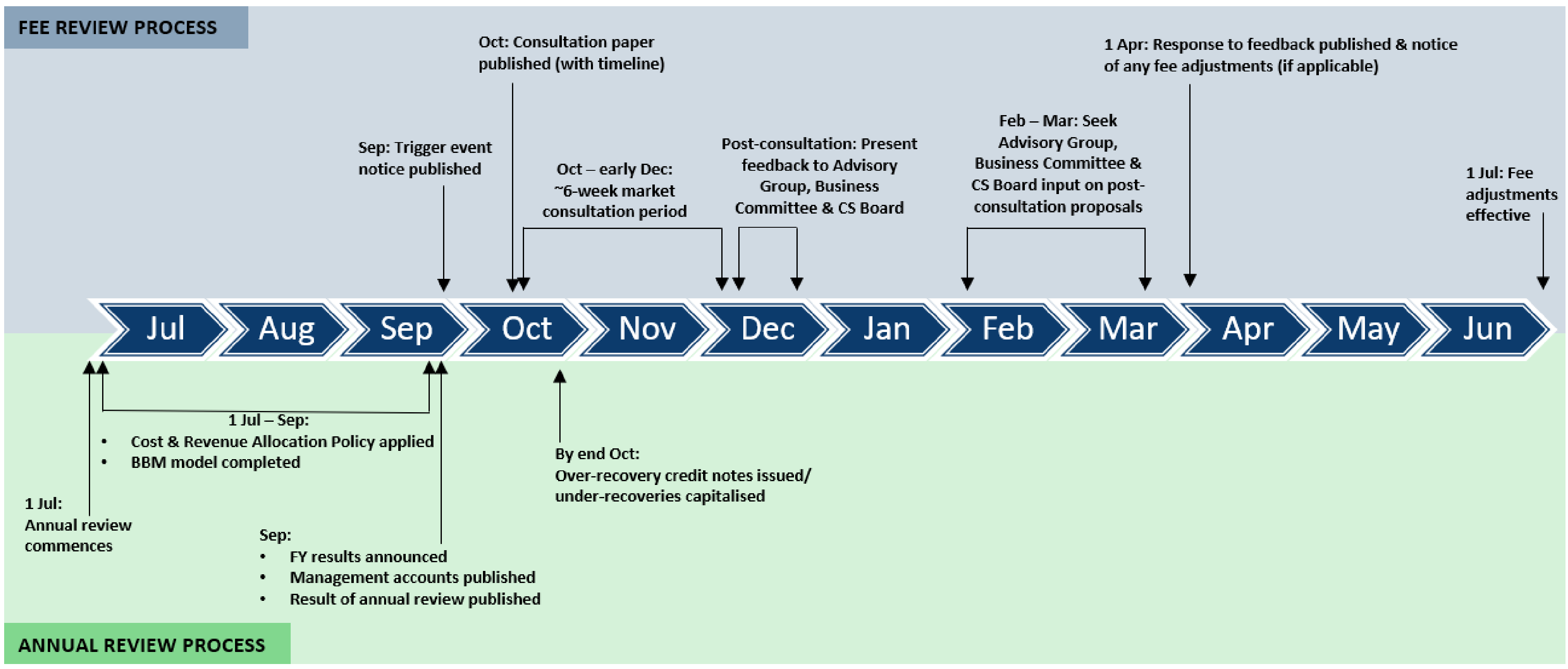
- When a FRT has been hit, at the same time as publishing the document explaining the outcome of the annual review, ASX will publish a notice that at least one trigger event has occurred (the '**trigger event notice**'), specifying the trigger event(s) for conducting the CS services fee review.
- As soon as practicable after the trigger event notice has been published, ASX will publish a consultation paper, which will set out proposed options and a recommendation to adjust, or not to adjust, the CS services fee schedules to address the trigger(s) set out in the trigger event notice. The proposals paper will also set out an intended timeline for consulting with stakeholders, reviewing industry and customer feedback, finalising any potential adjustments to the CS services fee schedules and informing customers of any adjustments to those fee schedules in advance. The consultation paper will be open for stakeholder feedback for a period of approximately 6 weeks.
- By no later than 1 April of the financial year prior to the financial year in which any adjustments to the CS services fee schedules are to take effect, ASX will publish a response to the consultation feedback, including the details of any adjustments to those fee schedules and the respective reasons for change.

The fee review and the annual review processes, as well as their associated timelines, are depicted in Figure 3.

While conducting the review and during any associated consultation processes, we will have regard to:

- Stakeholder feedback;
- The outcome of recent annual reviews under the Policy;
- Whether any under or over-recovery in prior financial years is likely to reflect transitory or structural factors;
- Expected future market developments, including expected changes in demand or expenditure requirements;
- The most recent international benchmarking of CS services fees against prices for comparable services; and
- Other matters that may be relevant to the review.

Figure 3: Annual Review and Fee Review Processes and Timelines



We understand the desire of stakeholders for price stability and predictability. In designing the fee review process, we have sought to ensure that the frequency of adjustments to the CS services fee schedules is kept to a minimum on an ongoing basis. We highlight the following important clarifications and factors in the design of the fee review process:

- To enable us to accurately gauge whether fees are appropriately aligned with efficient costs on an ongoing basis, all under and over-recoveries will be counted towards the second quantitative FRT, even if rebates are made to customers following a material over-recovery.
- The triggering of a FRT, in of itself, does not mean or guarantee that the fee schedules will be adjusted – rather, it merely triggers a review of the fee schedules with a view to ensuring that CS services revenue remains aligned with the efficient cost of service delivery. The outcome of a review, after consideration of all relevant evidence and stakeholder views, may be that the most appropriate path forward is to not adjust fees. For example, if consistent under-recoveries result in the second quantitative FRT being hit, we may conclude that an expected future rise in clearing and settlement activity will naturally result in increased revenue over time, and therefore we may propose not to adjust fee levels up.
- We will consult with stakeholders to seek their feedback in the event of a FRT being hit.
- It is not our intention to implement a significantly higher level of fees over the course of a single year, if multiple previous years of under-recovery lead to a FRT being hit – rather, any proposed adjustments to fee schedules in response to a fee review will seek to address the cumulative imbalance between revenue received and the revenue requirement over a multi-year horizon, and will take into account the expected future trajectory of costs and revenue.
- As stated earlier, under the new Policy, the earliest date that any adjusted fees could take effect would be 1 July 2027.
- In response to the call for a minimised frequency of adjustments to fees, we have implemented a two-year moratorium for any further adjustments to fee levels once a fee adjustment is made. However, if another clearing and settlement facility emerges, there is a significant change in the regulatory environment for cash equities in Australia, a significant change in the market structure for cash equities in Australia, or a significant structural change or upgrade to, or impact on, ASX's business model or operating structure for CS services, we may need to consult with stakeholders during this moratorium period on potential future fee adjustments. Any such adjustments would only take effect after the moratorium has concluded.

2.6. Other Feedback

Cross-Subsidisation

2.6.1 Feedback

We received limited feedback from two respondents expressing a concern about the potential for one or more CS service(s) to effectively cross-subsidise another CS service(s) as a result of unequal revenue contributions and/or cost drivers across the three CS services businesses. One of those respondents also expressed a desire for further specificity on how any upward fee adjustments would be applied within and across those businesses.

2.6.2 ASX Response

The Pricing Policy's annual review mechanism is not intended to address the structure of fees, including the relative contribution of individual fees to overall CS services revenue. Rather, the objective of the annual review mechanism is to ensure that overall revenue from CS services remains commensurate with the efficient costs of providing those services, including a return on investment commensurate with the commercial risks involved. Where there is under or over-recovery against the overall revenue requirement, any adjustment will be applied in proportion to each participant's revenue contribution (i.e. it will not impact relative contributions).

We note that many of the costs of providing CS services are common across clearing, settlement and issuer services. This means that cross-subsidisation (i.e. one service group bearing costs that are directly attributable to another service group) is unlikely to arise. Reflecting the commonality of many of these costs, each of clearing, settlement and issuer services currently contribute approximately one third of CS services revenues (and therefore share approximately equally in cost recovery). Given the commonality of costs and current revenue contributions, we do not expect instances of cross-subsidisation to arise in the future. However, we will continually monitor this proportion and take any necessary actions to ensure that the treatment of each of these customer cohorts is always fair and reasonable.

We also confirm that fee reviews will take into account the specific business drivers behind the FRT being hit, and also consider expected future market developments, including expected changes in demand and/or expenditure requirements within and across the three CS services businesses. Any adjustments to fees will be implemented with the intention of effecting a correction of the specific imbalance within a CS services business(es) that has led to the relevant FRT being hit.

Competition

2.6.3 Feedback

One respondent asked how the Policy might change if a committed competitor were to emerge in clearing and settlement in the Australian cash equity market.

2.6.4 ASX Response

The emergence of a committed, competing CS services provider has been included in the amended, updated list of FRTs. This will require us to consider what, if any, amendments may need to be made to the Policy in light of this development.

BBM Appropriateness

2.6.5 Feedback

One respondent asked ASX to explain whether any alternative models were considered that may be more appropriate for a CS services business. The respondent also asked whether ASX would periodically review the BBM's suitability and appropriateness as a model for calculating the economic cost of providing CS services.

2.6.6 ASX Response

The BBM is a standard tool for determining the amount of revenue required by a provider of infrastructure access services to cover the efficient cost of providing those services, including a return on investment commensurate with the commercial risks involved. It is applied in industries such as energy, telecommunications and transport infrastructure by regulators including the Australian Competition and Consumer Commission and the AER. On this basis, ASX considers the BBM to be the most appropriate model for CS services going forward.

The Policy will be reviewed in its entirety every five years, with a view to updating or amending it as necessary. As part of this review, we will not only consider the BBM's continuing appropriateness, but we will also:

- Assess the potential need for changes to CS services pricing to reflect changes in the cost base;
- Consider potentially significant capital expenditure associated with a replacement system;
- Consider any changes to CS services delivery; and
- Consider any impact of increased competition and/or reduced demand.

The Policy may also be reviewed if there are significant changes in the market structure for CS services, including any material changes in the competitive landscape or regulatory obligations.

Fee Structures

2.6.7 Feedback

As part of its feedback, one respondent advised that its members experience difficulty in cross-checking statements against their own records, while another noted difficulties with reconciling fees paid with the number of contract notes it issues.

2.6.8 ASX Response

ASX has developed a number of tools and resources that sit under the Issuer Services website, that stakeholders can use to assist them in a better understanding their fee structures and statements, including, but not limited to, frequently asked questions on pricing for issuer services.

The ASX Issuer Services Pricing Calculator is designed to provide a guide to the key fees charged for issuer services, which includes the set up and maintenance of a CHESS subregister for any approved financial product, holder administration, holder account balances and the issuance of CHESS holding statements to holders. It includes instructions on how to use it, and common questions asked when using it. A sample invoice for investment product issuers can also be found on the ASX website.

Corporate issuers can also find more information on the same webpage about their fees and statements, including a monthly subscription fee table to assist them in determining the number of CHESS Holder Identification Numbers ('**HINs**') that ASX uses for the calculation of the fees, and a sample invoice further explaining how the fees are calculated.

We are committed to providing as much transparency to our customers in understanding their fees and statements as possible. If stakeholders have any further questions or requested clarifications, please contact the Issuer Services team.

Capitalising the Clearing Function

2.6.9 Feedback

A small number of respondents expressed a desire for a broader discussion about ASX's 'Cover 2' proposal to require Clearing Participants to contribute to funding the ASX Clear (Futures) Default Fund, and how this might interact with and impact the Policy from a risk perspective. Respondents also encouraged ASX to ensure that the proposal does not create barriers to entry for new prospective clearers.

2.6.10 ASX Response

We note that ASX's Cover 2 proposal is distinct and separate from the Policy, and is therefore being progressed outside the scope of this regime. However, ASX is continuing to engage with Clearing Participants about the proposal through the RCC, and will consider feedback regarding any potential impacts on the Policy at the time of finalisation of the proposal, if appropriate.

3. Next Steps

3.1. Supporting Documentation and Processes

The updated Policy is attached as Annexure A. The final policy is intended to be published by the end of June 2025 subject to the final approval of the Boards of ASX Clear and ASX Settlement. We are focussing on completing our work on the remaining ancillary components of the Pricing Policy regime, so that stakeholders have maximum clarity about the final design of the regime and how those components interact. Specifically:

- The Revenue Sharing Scheme and the Issuer Services discounts will cease operation at the end of June, with the relevant consequential amendments to the CS services fee schedules to effect this change also well progressed;
- The Allocation Policy will be finalised and published by no later than the end of June, inclusive of independent assurance;
- Other relevant independent assurance processes are well progressed, including preparations to ensure that the first application of the BBM and annual review at the end of FY 2026 is assured; and
- Work is well underway on the international pricing comparative report, with the vendor selection process complete and the comparison itself now being conducted (noting that the Rules require this report to be published by late May 2026).

3.2. Ongoing Engagement

We continue to be open to meeting with any stakeholders who would like to clarify their understanding about how the Policy will work in practice. Stakeholders can contact EquityPostTrade@asx.com.au for such discussions.

3.3. Refreshed ASX Webpages

We will update the relevant ASX webpages to create a single repository for all preceding and future information concerning the Policy and its ongoing operation. The new webpages will align with our commitment to ensuring that stakeholders have the transparency they need to internally prepare for the new regime. The new webpages will include, but not be limited to:

- Previous and future consultations (such as the September 2024 consultation paper and future consultation papers following a FRT being hit) and ASX responses to consultations (including this response paper);
- The Pricing Policy and supporting documentation (such as the Allocation Policy, independent assurance reports and international pricing comparative reports);
- Results of annual reviews and any associated FRT notices;
- External audit reports (such as those relating to compliance with the Rules);
- Previous presentations and webinars;
- Historical information about regulatory developments with respect to clearing and settlement services; and
- Other relevant information.

Cash Equities Clearing, Settlement and Issuer Services Pricing Policy

DRAFT

May 2025

1. Cash Equities Clearing, Settlement and Issuer Services Pricing Policy ('Pricing Policy')

1. This Pricing Policy sets out the methodology for determining and reviewing prices for services that are classified as 'Covered Services' for the purposes of the *ASIC CS Services Rules 2025* ('**Rules**'). These include:

    (a) Cash equity clearing services provided by ASX Clear Pty Limited ('**ASX Clear**');

    (b) Cash equity settlement services provided by ASX Settlement Pty Limited ('**ASX Settlement**'); and

    (c) Issuer services provided by ASX Settlement.

    This group of services is referred to in this Pricing Policy as '**CS services**'. References to ASX in this Pricing Policy mean ASX Clear and ASX Settlement.

2. As the sole licensed operator of clearing and settlement facilities for the Australian cash equities market, ASX recognises the importance of its clearing and settlement services to its customers. ASX is committed to ensuring Australia's clearing and settlement infrastructure is efficient, well capitalised and well governed. ASX values working collaboratively with customers and other stakeholders to deliver world-class financial infrastructure and CS services that meet the needs of a diverse range of users in the Australian cash equities market.

3. CS services are provided through the Clearing House Electronic Subregister System ('**CHESS**'). The fee schedules for individual CS services can be found on the ASX Schedule of Fees webpage.

2. Purpose of this Pricing Policy

4. The Rules and the ASX Cash Equities Clearing and Settlement Code of Practice (the '**Code of Practice**') contemplate the importance of ASX's clearing and settlement services to the Australian market.

5. The Rules include an obligation on ASX to take all reasonable steps to ensure that the pricing of its Covered Services is transparent, fair and reasonable. The Rules also include an obligation to maintain and publish a methodology for determining the prices of its Covered Services that demonstrates that the expected revenue from the provision of the Covered Services reflects the efficient costs of providing those services, including a return on investment commensurate with the commercial risks involved (the '**cost reflectivity principle**').

6. The purpose of this Pricing Policy is to demonstrate and ensure ASX's compliance with its obligations in the Rules, build on ASX's commitments under the Code of Practice and provide information and transparency to customers on ASX's approach to determining CS services pricing.

3. Ensuring that ASX's Pricing Complies with the Rules

7. ASX is committed to transparent, fair, reasonable and non-discriminatory CS services pricing. ASX publishes CS services fee schedules on its website, and this Pricing Policy explains how ASX ensures that its pricing complies with the Rules.

8. ASX will not discriminate in favour of any CS services customers (including any ASX-affiliated entities), except to the extent that the efficient cost of providing the same service to another party is higher.

9. To determine the prices of its CS services and demonstrate alignment with the cost reflectivity principle, ASX will employ:

(a) the Building Block Method (‘**BBM**’);

(b) annual review of revenue from CS services; and

(c) a process for reviewing the CS services fee schedules and making any potential amendments to those fee schedules, to ensure that expected revenue remains in line with efficient costs.

The BBM, annual review of revenue from CS services and fee schedules review and change process are explained further in the following sections.

4. Building Block Method

10. ASX will adopt the BBM as part of its process for ensuring alignment with the cost reflectivity principle. The BBM is a well-established tool endorsed by Australian regulators to ensure that prices for access to essential infrastructure reflect the efficient costs of providing that access.

11. The BBM operates by calculating a ‘revenue requirement’ for each year which reflects the efficient cost of delivering CS services. This is calculated as the sum of four cost building blocks:

(a) a return of capital (depreciation on invested capital, representing the allocation of investment costs over the capital’s useful life);

(b) a return on capital (the cost needed to cover the costs of investment in assets, i.e. returns to equity and debt holders), at a rate of return which reflects the risk involved in providing CS services. Market parameters for the rate of return will be calculated in line with the Rate of Return Instrument (‘**RORI**’)[1], a standard regulatory methodology published by the Australian Energy Regulator (‘**AER**’);

(c) operating costs (day-to-day costs of running the CS services businesses with the efficiency scheme to incentivise cost management, allocated in accordance with the ASX Cost and Revenue Allocation Policy (‘**Allocation Policy**’)); and

(d) the cost of corporate tax (the corporate tax on taxable income, adjusted for the value of imputation credits that are created when corporate tax is paid).

12. Under the Rules, ASX is required to maintain and publish a model for the internal allocation of all costs, including the cost of allocated capital, as well as policies to govern the transfer of prices between the relevant ASX Group entities. ASX intends to allocate the economic costs (both direct and indirect) of providing CS services in accordance with the Allocation Policy. This policy describes the manner in which costs will be allocated to clearing, settlement and issuer services functions in the preparation of ASX’s management accounts. The Allocation Policy will be applied by ASX in calculation of BBM revenue requirements under the Pricing Policy.

13. Included in the calculation of a return on capital (paragraph 11(b)) is the cost associated with financial risk capital held for operations relating to CS services, reflecting ASX’s regulatory obligations to safeguard participants’ assets (‘cost of holding risk capital’). This includes capital in the default fund and financial risk capital (to cover operational and business risks) held for CS services.

[1] The Rate of Return Instrument sets out the approach that will be adopted by the AER to estimate the rate of return for regulated energy network businesses. The AER publishes a new Instrument every 4 years that is then binding for all regulatory determinations in the subsequent 4 years. The AER most recently published a RORI in February 2023.

Weighted Average Cost of Capital

14. To calculate a reasonable return on capital, ASX will use a target rate of return for each financial year as a weighted average cost of capital (‘**WACC**’). The WACC is a weighted average of the cost of debt and the cost of equity, with the weights reflecting the relative amounts of debt and equity appropriate for the CS services.

15. The parameters and methods that will be used to calculate the WACC are set out in the table below. These reflect standard and well-accepted regulatory methods. For parameters that are not specific to ASX (all parameters other than the asset beta), methods are aligned with the RORI. The asset beta has been determined to reflect the degree of risk faced by ASX in providing CS services.

WACC Input	ASX parameter value / methodology
Risk-free rate	The risk-free rate for each financial year will be calculated as a simple average of the daily yield-to-maturity for 10-year Commonwealth Government Securities, averaged over all business days in the relevant financial year. The relevant yield data will be sourced from the Reserve Bank of Australia.
Asset beta	1.20
Market risk premium	As specified by the AER in the RORI
Gearing	0% debt / 100% equity
Tax rate	30%
Value of imputation credits (gamma)	As specified by the AER in the RORI

5. Efficiency Scheme

16. A BBM framework can incorporate schemes designed to create incentives for efficiency improvements over time. Through an efficiency scheme, the services provider and its customers can share in the benefit of any cost savings. This creates an incentive for the services provider to pursue efficiency gains and allows customers to benefit from these efficiency gains.

17. ASX will implement an efficiency scheme (‘**ES**') to ensure that it continues to prudently manage its operating costs as part of this Pricing Policy. The ES sets out the methodology to provide for equal sharing between ASX and users of CS services of efficiency gains and losses.

18. An ‘**efficiency gain**’ is where actual operating expenditure incurred by ASX is less than the budgeted operating expenditure target for the relevant financial year. An ‘**efficiency loss**’ is where ASX’s actual operating expenditure is more than the budgeted operating expenditure target for the relevant financial year. Any efficiency gains or losses will be reflected as adjustments to the operating costs calculation in the BBM. Under the ES:

    (a) At the beginning of the financial year, ASX will provide guidance to the users of CS services on the forecasted operating costs for providing CS services (‘**budgeted operating expenditure**’). This will establish the baseline level of operating expenditure for the upcoming financial year that will be used within the BBM calculations.

    (b) At the end of the financial year, the operating costs will be allocated into the BBM based on the operating costs, as per the Allocation Policy (‘**actual operating expenditure**’).

(c) Where ASX reduces its actual operating expenditure below the budgeted operating expenditure, there will be a sharing of the efficiency gain – 50% of the gain will be retained by ASX, while the remaining 50% will be adjusted to the operating cost calculation within the BBM.

(d) Where ASX increases its actual operating expenditure above the budgeted operating expenditure, there will be a sharing of the efficiency loss – 50% of the loss will be borne by ASX, while the remaining 50% will be adjusted to the operating cost calculation within the BBM.

(e) For the following year, the budgeted operating expenditure will reset based on actual expenditure in the prior year and ASX Group forecasts, meaning that any efficiency gain or loss will be reflected in the budgeted operating expenditure going forward.

6. Annual Review of Revenue from CS Services

19. Upon completion of each financial year, ASX will conduct an annual review, using the BBM to calculate the revenue requirement (which represents the economic cost of providing CS services for that year) and comparing this to the revenue that was generated for that year. The purpose of this annual review is to ensure that the revenue generated from providing CS services reflects the efficient costs of providing those services.

20. ASX will conduct the annual review process to operate as follows:

(a) By no later than September of each year during the term of this Pricing Policy, ASX will compare the revenue received for CS services for the prior financial year against the revenue requirement and determine whether the revenue received was above the revenue requirement (an '**over-recovery**') or below the revenue requirement (an '**under-recovery**') for that financial year.

(b) In the case of an under-recovery, no additional payment will be required from customers. Instead, the under-recovery amount will be held for netting and offsetting against any over-recovery amount(s) in future years (a '**recovery offset**').

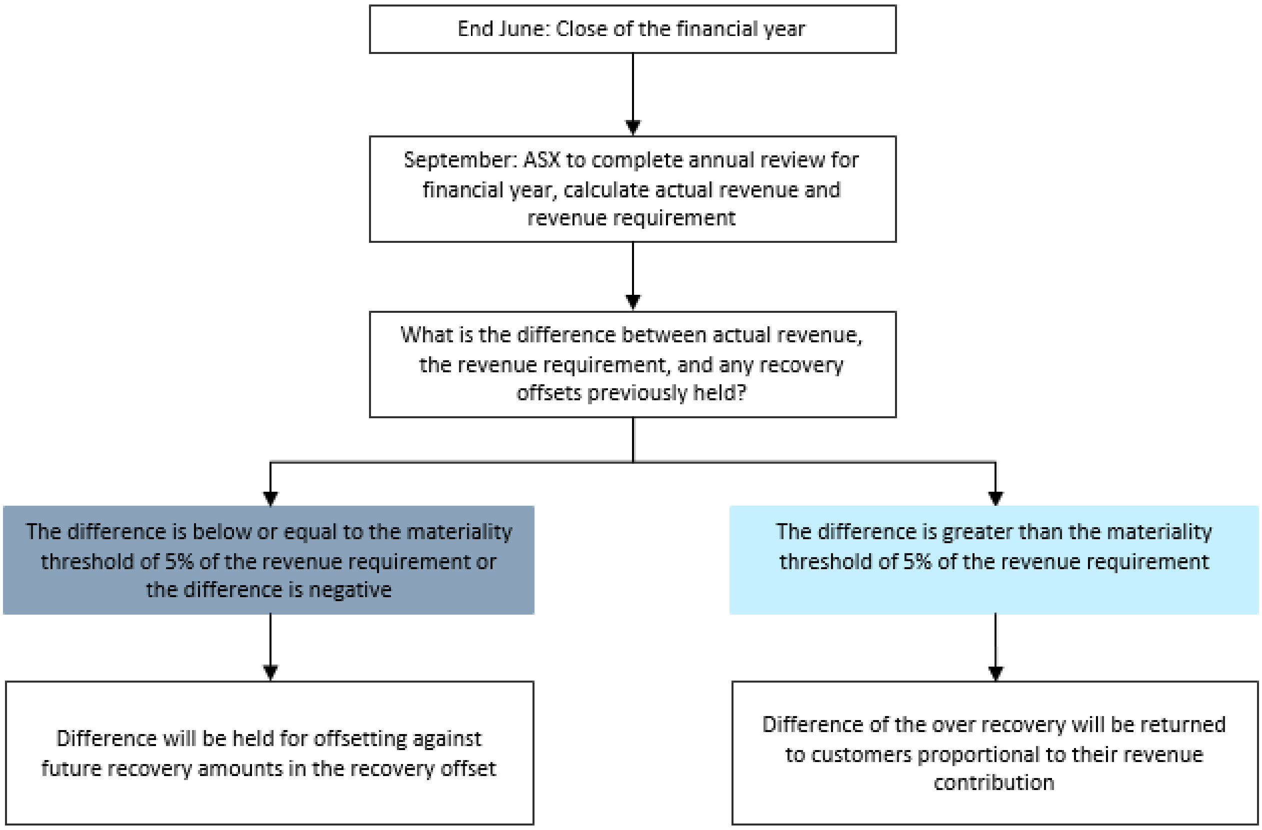
(c) Where an over-recovery amount is greater than 5% (the '**materiality threshold**') relative to the revenue requirement in aggregate across all customers (a '**material over-recovery**'), ASX will calculate an over-recovery amount to be returned to customers through a reconciliation payment, subject to netting against any under-recovery offset(s) previously held. The over-recovery amount will be calculated as the amount of revenue in excess of that required to recover the revenue requirement and will be reimbursed to each customer proportionally, based on each customer's percentage contribution to the annual revenue for that financial year.

(d) If the over-recovery amount is less than or equal to 5% (the materiality threshold), there will be no reconciliation payment for that year. Instead, this amount will be netted against any recovery offset(s) from previous years or held for netting against future recovery offset(s).

(e) By no later than September of each year, ASX will publish a document explaining the outcome of the annual review on its website. If a 'trigger event' (as defined in section 7) has occurred, ASX will also publish a document setting out a timeline and details of the next steps to occur in reviewing the CS services fee schedules.

21. The annual review mechanism for revenue from CS services is shown in Figure 1.

Figure 1: Annual Review Mechanism for revenue from CS services



7. Review of CS Services Fee Schedules

22. ASX understands that its customers value the stability and predictability of ASX's pricing. ASX will therefore only review and consider amending its CS services fee schedules upon the occurrence of a 'trigger event', which may be quantitative or qualitative in nature. Any amendments to the CS services fee schedules will be made in accordance with this Pricing Policy and the Rules.

Quantitative trigger events

23. ASX will conduct a review of its CS services fee schedules if any of the following quantitative trigger events occur, which may signify a material or sustained mismatch between revenue received and the revenue requirement:

(a) the under or over-recovery amount in a single financial year is greater than 10% of the revenue requirement; or

(b) the cumulative total amount of under-recovery or over-recovery over any period of time exceeds 10% of the revenue requirement for the most recent financial year.

Qualitative trigger events

24. ASX will conduct a review of its CS services fee schedules if any of the following qualitative trigger events occur:

(a) the emergence or likely emergence of another clearing and settlement facility;

(b) a significant change in the regulatory environment for cash equities in Australia, including, but not limited to, changes to the Rules and associated regulatory guidance, or the Regulatory Expectations;

(c) a significant change or expected change in the market structure for cash equities in Australia, such as, but not limited to, the adoption of a shorter settlement cycle for Australian cash equities;

(d) a significant structural change or upgrade to, or impact on, ASX's business model or operating structure for CS services;

(e) the revenue requirement or expected revenue received in a future year is expected to materially change (whether in response to a significant market event or not) such that at least one of the quantitative trigger events above would be expected to occur; or

(f) a CS services fee schedule review has not otherwise been conducted in the last 5 years.

25. The introduction of a new service by ASX will not trigger a review of CS services fee schedules. ASX will engage with relevant stakeholders regarding pricing of any new services.

26. The process for conducting a review will be as follows:

(a) Where a trigger event has occurred, at the same time as publishing the document explaining the outcome of the annual review, ASX will publish a notice that at least one trigger event has occurred (the '**trigger event notice**'), specifying the trigger event(s) for conducting the CS services fee schedules review.

(b) As soon as practicable after the trigger event notice has been published, ASX will publish a consultation paper, which will set out proposed options and a recommendation to amend, or not to amend, the CS services fee schedules to address the trigger(s) set out in the trigger event notice. The consultation paper will also set out an intended timeline for consulting with stakeholders, reviewing industry and customer feedback, finalising any potential amendments to the CS services fee schedules and informing customers of any amendments to those fee schedules in advance.

(c) By no later than 1 April of the financial year prior to the financial year in which any amendments to the CS services fee schedules are to take effect, ASX will publish a response to the consultation feedback, including the details of any amendments to those fee schedules and the respective reasons for change.

27. The fee review process and timeline are shown in Figure 2 below. Completion of a fee review process effectively resets the baseline for quantitative trigger events going forward.

28. While conducting the review and during any associated consultation processes, ASX will have regard to:

(a) stakeholder feedback;

(b) the outcome of recent annual reviews under this Pricing Policy;

(c) whether any under or over-recovery in prior financial years is likely to reflect transitory or structural factors;

(d) expected future market developments, including expected changes in demand or expenditure requirements;

(e) the most recent international comparative report of ASX's CS services fees against prices for similar services in other comparable international markets; and

(f) any other matters that ASX or stakeholders consider to be relevant.

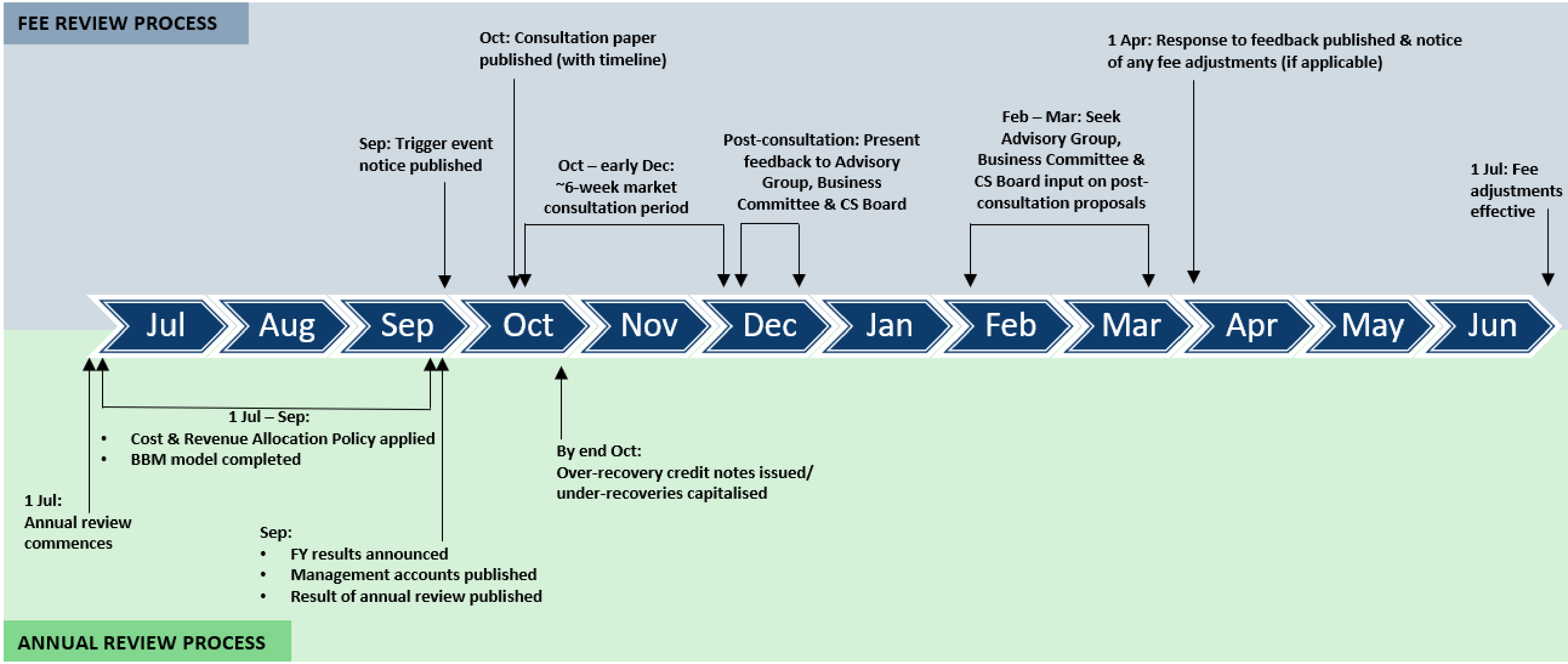
29. Any change to the fee schedule will take effect from the start of the next financial year. There will be no retrospective amendments to fees.

30. CS services fee levels will not be amended again for at least two years from the fee amendment effective date, with the exception of trigger events specified in paragraphs 24(a), 24(b), 24(c) and 24(d), which may result in commencement of a review of CS services fee schedules.

31. As required by the Rules, any amendments to the CS services fee schedules will not be implemented in a way that would materially shift revenue streams to other entities within the ASX Group.

32. ASX will monitor fee levels for CS services on an ongoing basis to ensure that alignment with the cost reflectivity principle is maintained as closely as possible.

Figure 2: Annual Review and Fee Review Process and Timeline



8. Transparency and Assurance Processes

33. ASX will publish annual, audited management accounts for its CS services.

34. ASX will publish the Allocation Policy.

35. ASX will publish the outcomes of the annual review of revenue from CS services, including:

    (a) the BBM calculation of the annual revenue requirement; and

    (b) calculation of any under or over-recovery amount.

36. ASX will also engage an appropriately qualified independent expert to conduct, prepare and publish a written report about the appropriateness of the Allocation Policy each time there is a change to the Allocation Policy or every three years, whichever comes first.

9. Operation and Review of this Pricing Policy

37. This Pricing Policy will commence on 1 July 2025.

38. The Pricing Policy will be reviewed every 5 years following its commencement, with a view to updating and/or amending it as necessary. As part of this review, ASX will:

    (a) assess the potential need for changes to clearing, settlement and issuer services pricing to reflect changes in the cost base;

    (b) consider potentially significant capital expenditure associated with a replacement system;

    (c) consider any changes to clearing, settlement and/or issuer services delivery; and

    (d) consider any impact of increased competition and/or reduced demand.

39. The Pricing Policy may also be reviewed if there are significant changes in the market structure for CS services, including any material changes in the competitive landscape or regulatory obligations.