

# **Securities Clearing and Settlement in Australia**

**Global Payments Week**

**Sydney**

**October 3, 2006**

# Overview

## 1. Institutional Framework

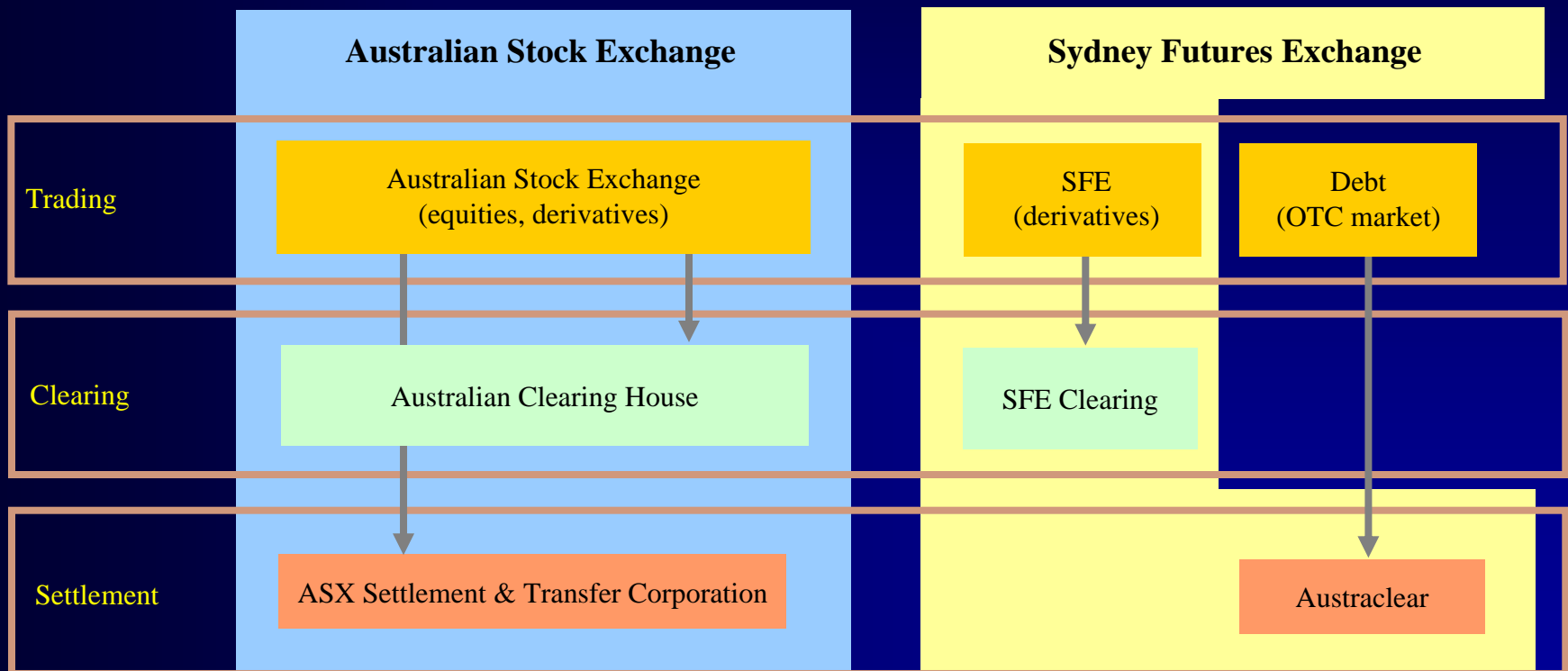
- Markets, clearing, settlement

## 2. Regulatory Framework

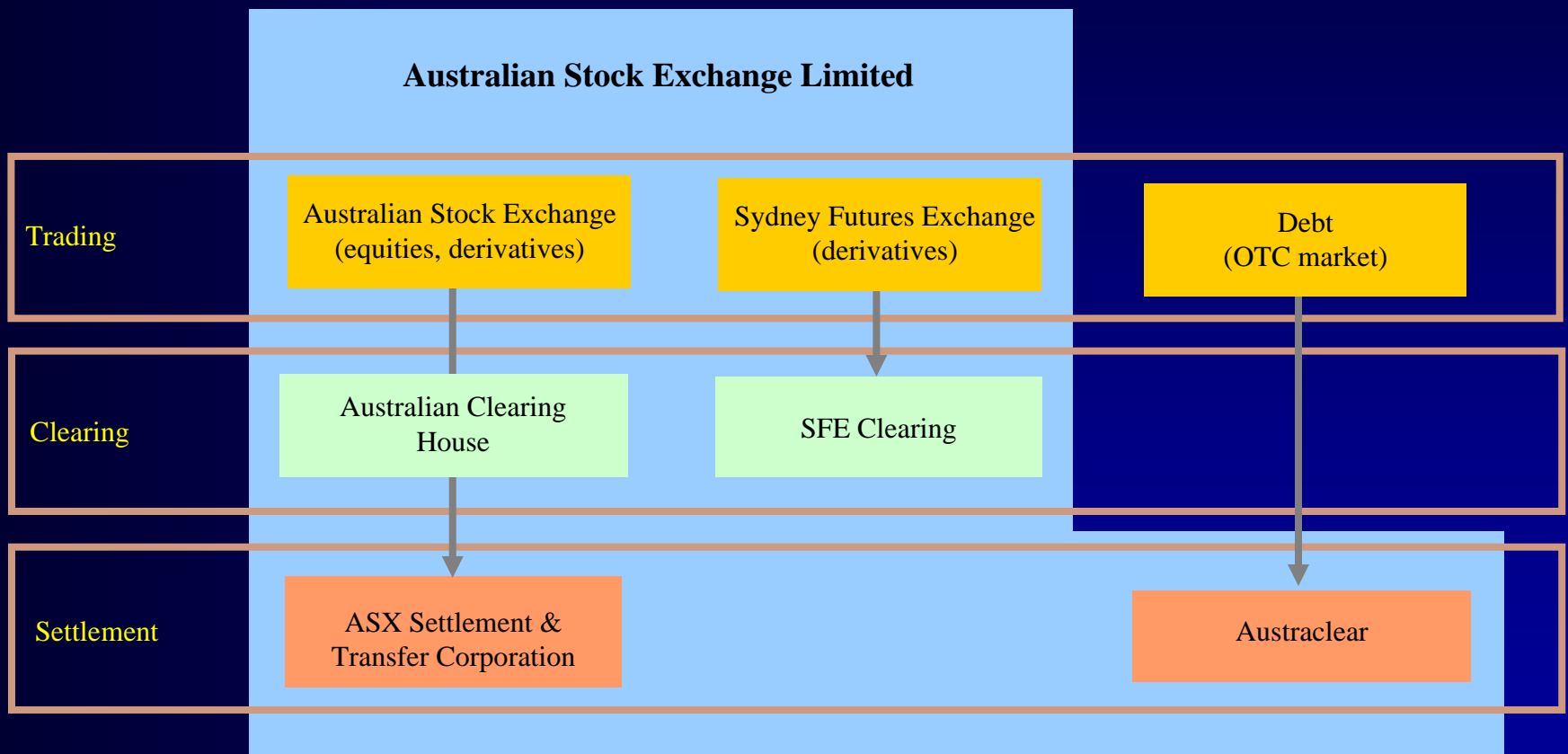
- Minister, ASIC, RBA
- Financial Stability Standards

# **1. Institutional Framework**

# Institutional framework – Pre July 2006



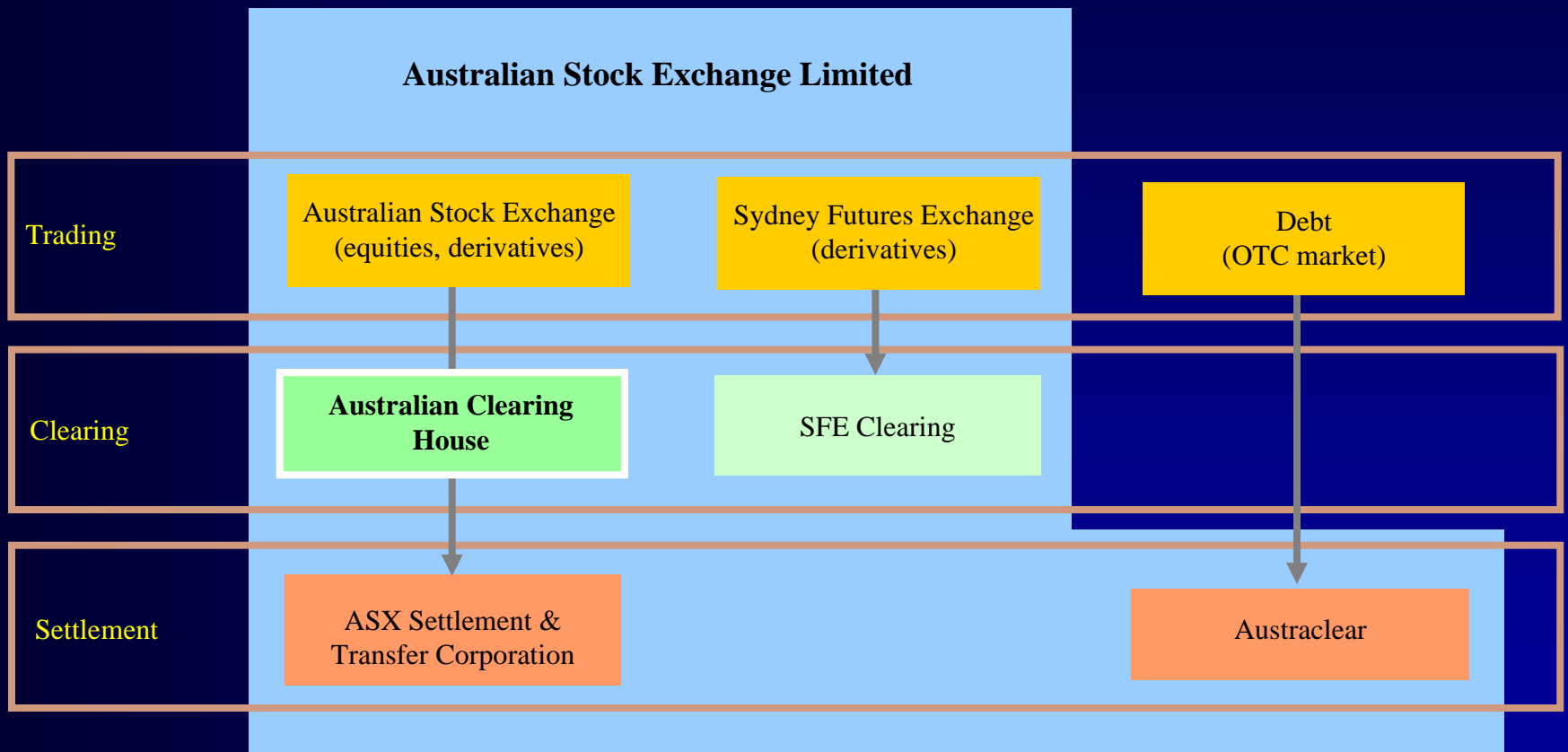
# Institutional Framework – Current



# 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

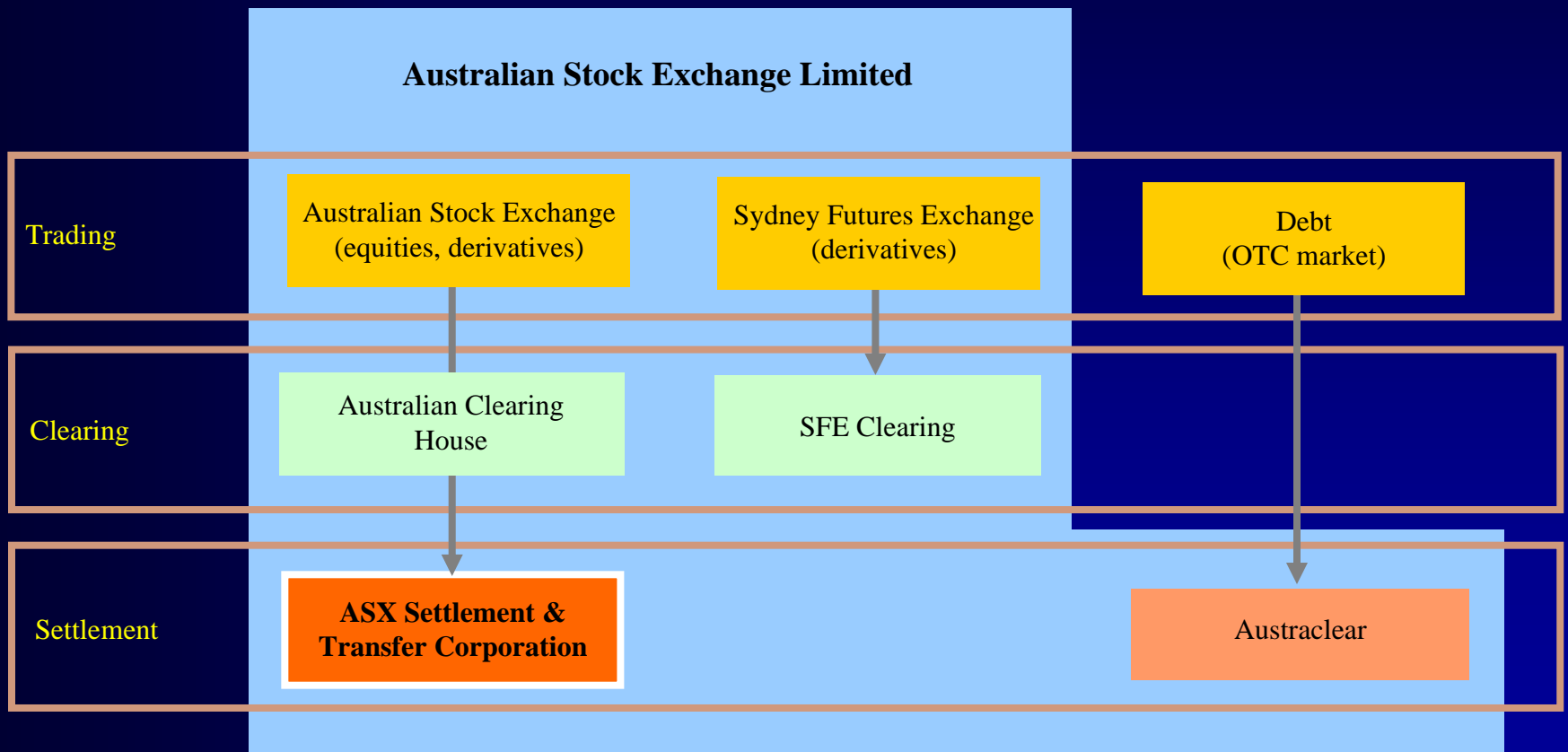


# ASX Clearing: ACH

- **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



# ASX Settlement: ASTC

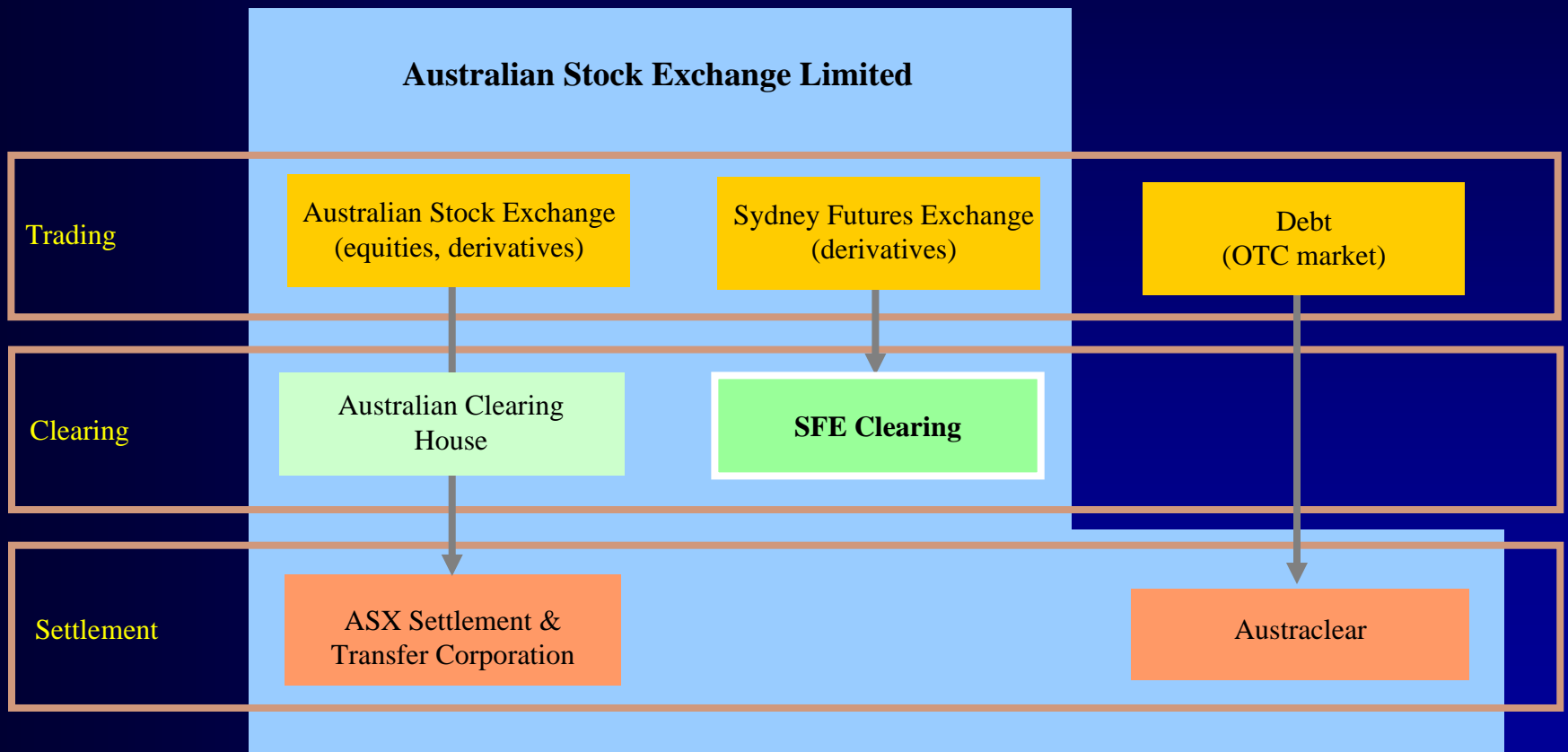
- **ASTC**

- 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

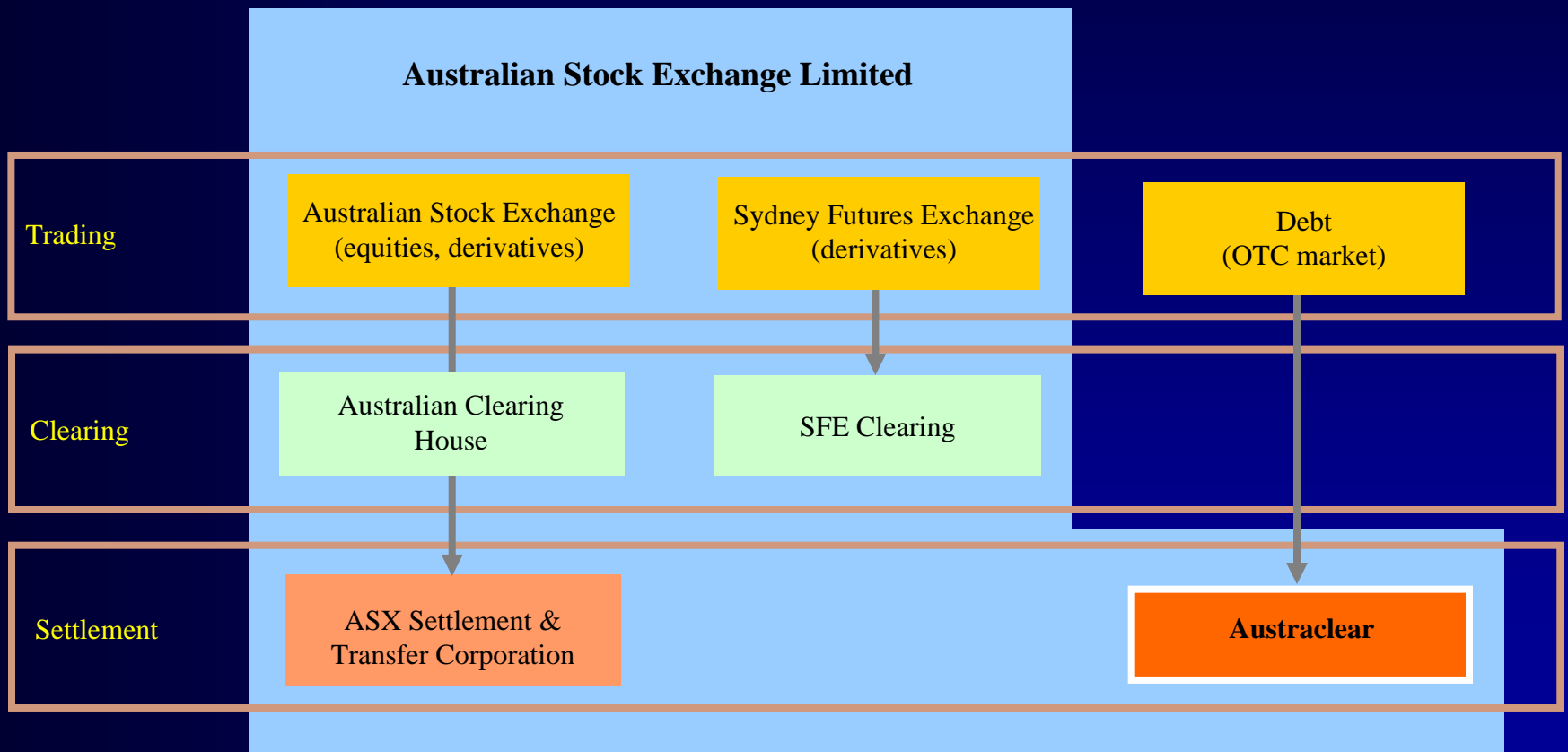
# Institutional Framework



# 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



# 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
  - Participation requirements
  - Understanding risks
  - Novation
  - Settlement
  - Default arrangements
  - Risk controls
  - Governance
  - Operational risk
  - 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

