25 October 2024

Mr Stephen Hammon
General manager, Business Management & Planning
ASX Limited
20 Bridge Street
Sydney NSW 2000

By email: EquityPostTrade@asx.com.au

Dear Mr Hammon

Cash Equities Clearing, Settlement and Issuer Services Pricing Policy

AFMA welcomes ASX's consultation on its proposed new pricing policy (the 'Policy') in relation to Cash Equities Clearing, Settlement and Issuer Services. The industry is hopeful that as per ASX's commentary, the model might assist furthering moves to a partnership model with industry in providing these services.

AFMA supports the framework as broadly sound and based on standard single service provider arrangements that leverage those already in place for the energy and other sectors.

We note that the BBM would no longer be appropriate in the event of material competition emerging. We would welcome consideration being given to how the BBM would be rolled off in these circumstances. For example, it might be reasonable to explicitly state that ASX can forgo some revenue (but not charge it back in later years) in order to compete should competition emerge.

Under Building Block Method arrangements, the Weighted Average Cost of Capital becomes a critical component. The industry is reassured by the proposed utilisation of the existing mechanisms in this regard.

The other key component in BBM models is ensuring efficient capital expenditure and operating expenditure.

While, as noted, we believe the model will support a partnership approach with industry, experience internationally has shown BBM arrangements can create incentives for inefficient capital and operating expenditure. We seek more information on how appropriate checks and balances will be put in place to balance out these incentives and afford independent challenge. We suggest, for example, that an efficiency dividend be considered that would incentivise ASX to lower costs and benefit from these reductions.

While not in scope for this consultation, on a related note the industry would welcome discussion on how to most efficiently capitalize the clearing function without creating barriers to entry for new clearers.

Please find our responses to the consultation questions below.

In relation to the proposed independent assurance (section 2.5) we would like to understand how this might work in with the new international comparison ASIC is proposing in CP 379 to avoid duplication. An international comparison could assist with making independent assurance meaningful.

We trust our responses are of assistance.

Yours sincerely

Damian Jeffree
Head of Financial Markets, Exchanges and Digital

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1. Do you agree with the proposal to implement a materiality threshold(s)? Please justify your response.

Yes, AFMA supports a materiality threshold based on the costs associated across participants and ASX with adjustments meaning that these should only be incurred where they are significantly outweighed by the associated payments.

2. If yes, 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)? Please provide a justification for your response.

We do not see a reason for using different thresholds so would support using the same threshold.

3. 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? If not, please provide an alternative dollar value amount suggestion(s) and justify your response.

AFMA has limited visibility of what the theoretical payouts for larger participants would be under this threshold. Noting this limitation, it appears reasonable.

4. Which of the two options for an under or over-recovery beyond the proposed materiality threshold are you most in favour of? Please provide a justification for your selection.

AFMA supports annual reimbursements and debits being squared quickly i.e. Option 2. Some AFMA members will pass costs through to their underlying clients. As such the ability to 'true-up' such costs quickly, and for both increases and decreases, is seen as important.

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

We are not aware of any.

6. Do you agree with the proposal to implement the first 'fees review trigger' as described? Please provide a justification for your response.

We believe this trigger should be prospective rather than retrospective. AFMA is of the view that the fees should be adjusted for budgeted variations of greater than 5%. Prospective fee amendments only is important to our members who pass through any such costs to their clients.

This would help prevent instances where fees remain low for a high-volume year and then rise in the subsequent year when volumes might be low.

7. Do you agree with the proposal to implement the second 'fees review trigger' as described? Please provide a justification for your response.

We do not raise any objection to the trigger but suggest it could be used for cumulated previous years over or under recovery combined with the budgeted variations expected.

8. 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?

Noting our suggestions above we would support this view.

9. 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.

NA

10. Should ASX consider implementing any other fees review triggers? If yes, please describe the trigger(s) in detail.

No response.

11. Do you support a commencement date of the new Policy of 1 January 2025? Please provide an explanation for your support or alternative suggestion(s).

To allow for firm budgeting to adjust we request the start date be moved to the start of the 2025/6 Financial Year.

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