



ASIC

Australian Securities & Investments Commission

REPORT 401

Market assessment report: ASX Group

ASX Limited, ACN 008 624 691

Australian Securities Exchange Limited, ACN 000 943 377

ASX Clear Pty Limited, ACN 001 314 503

ASX Clear (Futures) Pty Limited, ACN 050 615 864

ASX Settlement Pty Limited, ACN 008 504 532

Austraclear Limited, ACN 002 060 773

July 2014

About this report

This report relates to the period from 1 July 2012 to 30 June 2013 (assessment period). We also reviewed some important events that occurred after the assessment period. These events are outlined in our report.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Recent ASX Group assessment reports

Entities	Report number	Date released
ASX, ASX Clear, ASX Settlement,	REP 345	May 2013
Australian Securities Exchange,	REP 289	July 2012
ASX Clear (Futures), Austraclear	REP 265	November 2011

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A Summary of observations and conclusions

Key points

ASIC may conduct annual assessments of market licensees and clearing and settlement (CS) facility licensees, including ASX Group licensees, under s794C(1) and 823C(1) of the Corporations Act.

The scope of our assessment can include any or all of the obligations of a market or CS facility licensee, for example, the obligations under s792A(c) and 821A(c) which require a licensee to have adequate arrangements for operating a market or facility, including arrangements to manage conflicts of interest and monitor and enforce compliance with operating rules). It can also include an assessment of ASX Group licensees' compliance with s792A(d) and s821A(d) to have sufficient financial, technological and human resources to properly operate its facilities.

We have used the licensees' self-assessment reports, information from our previous assessments, our observations of the licensee's performance, market intelligence and other things to form a view of how well the licensee has operated its market and CS facilities.

Overall, our assessment concluded that ASX Group licensees met their statutory obligations in the assessment period. However, there are seven agreed actions that focus on the ongoing improvement in the operation of ASX Group's facilities. While important, the agreed actions do not detract from our overall conclusion as to ASX Group licensees' compliance over the assessment period.

The assessment

ASIC's obligations

- 1 Under s794C(1) of the *Corporations Act 2001* (Corporations Act), the Australian Securities and Investments Commission (ASIC) may assess how well a market licensee is complying with any or all of its obligations as a market licensee.
- 2 In addition, under s823C(1), ASIC may assess how well a clearing and settlement (CS) facility licensee is complying with any or all its obligations as a CS facility licensee.

Licensee's obligations assessed

- 3 In our assessment, we reviewed ASX Group's arrangements for the operation and supervision of its markets and CS facilities under s792A(c) and 821A(c). This includes its arrangements for handling conflicts of interest and its

arrangements for monitoring and enforcing compliance with the relevant facilities' operating rules.

- 4 In keeping with our standard practice, we extended the scope of our assessment to also include a review of whether ASX Group had sufficient financial, technological and human resources to properly operate its facilities: see s792A(d) and s821A(d).

Reserve Bank of Australia's obligations

- 5 The Reserve Bank of Australia (RBA) also plays a critical role in monitoring and assessing CS facilities. Under s823 the RBA must assess, at least once a year, how well each CS facility is meeting its obligations under s821A(aa) to comply with the RBA's Financial Stability Standards (FSS) and do all things necessary to reduce systemic risk.
- 6 The RBA's most recent assessment report on ASX Group was released in September 2013, and covered the period from 1 July 2012 to 30 June 2013. This was the first assessment of these facilities against the new FSS determined by the RBA in December 2012. ASX Group's four CS facilities were found to have complied with their relevant obligations.¹

Assessment period

- 7 Our assessment covers the period from 1 July 2012 to 30 June 2013 (assessment period). We also reviewed post-assessment period events, in particular ASX Group's arrangements for handling director conflicts of interest following the resignation of two ASX Limited directors on 19 September 2013, and matters relating to the ASX 24 futures market between 1 September 2013 and 3 October 2013.
- 8 Our assessments generally begin around September each year after ASX Group has submitted its annual regulatory report for the financial year, as required by the Corporations Act. While our assessments generally cover the financial year, we ensure that significant post financial year events are also reviewed.

¹ RBA, *2012/13 Assessment of ASX Clearing and Settlement Facilities*, report, September 2013, www.rba.gov.au/payments-system/clearing-settlement/assessments/2012-2013/pdf/report-2012-2013.pdf.

Our approach to assessments

ASIC's strategic priorities

- 9 ASIC's current strategic framework focuses on three key priorities. These are to ensure:
- fair and efficient financial markets;
 - confident and informed investors and financial consumers; and
 - efficient registration and licensing.²
- 10 The first two of these are particularly important for licensed markets and CS facilities. For example, appropriate resourcing is fundamental to ensuring that markets operate in an efficient manner and that CS facilities operate effectively. The adequate management and transparency of matters such as conflict handling arrangements are important to the fairness of both the market and CS facilities. Similarly, the effective monitoring and enforcement by a market operator of its continuous disclosure requirements is critical to ensuring that investors and consumers are confident and make informed decisions. For these reasons, we regard the assessment process as an important tool by which we continue to strive to meet our strategic outcomes.

Guiding principles

- 11 Our assessments are guided by certain principles that draw on the International Organization of Securities Commissions (IOSCO) *Objectives and principles of securities regulation*. The principles we use to guide assessments are that:
- admission standards for issuers and participants are robust and administered in a fair and transparent way;
 - post admission standards are robust and effectively monitored and enforced in a fair and transparent manner;
 - operating rules promote transparency to market users of material price and trading information;
 - the deterrence of unfair trading practices is supported by robust arrangements for detection and prompt referral to ASIC of significant contraventions of the operating rules, the Corporations Act and ASIC market integrity rules;
 - conflicts of interest are adequately managed;
 - systemic risk and market disruption are reduced through the proper management of large exposures and default risk; and
 - sufficient resources (including technological resources) are deployed to operate the market and clearing and settlement facility in a proper and reliable manner.

² This key priority was not relevant to our assessment of ASX Group.

Principles for financial market infrastructures

- 12 The Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of IOSCO have developed the *Principles for financial market infrastructures* (the CPSS-IOSCO Principles),³ which give guidance on how to address risks and efficiency in financial market infrastructure, including central counterparties (CCPs) and securities settlement facilities (SSFs).
- 13 Under Pt 7.3 of the Corporations Act, ASIC and the RBA have joint responsibility for regulating compliance with the CPSS-IOSCO Principles in Australia. The division of regulatory focus between ASIC and RBA for each of the CPSS-IOSCO Principles is detailed in Appendix 2 of Regulatory Guide 211 *Clearing and settlement facilities: Australian and overseas operators* (RG 211).
- 14 ASIC and the RBA will publish a joint assessment in the second half of 2014 on ASX Group's CS facilities' observance of the CPSS-IOSCO Principles. However, we have also considered the CPSS-IOSCO Principles that are relevant to ASIC's regulatory remit in assessing ASX Group's CS facilities' compliance with their ongoing obligations under the Corporations Act.

Methodology

- 15 In conducting our assessment, we:
- held discussions with senior ASX Group personnel;
 - reviewed internal ASX Group documentation obtained under notices issued under s30 of the *Australian Securities and Investments Commission Act 2001*;
 - reviewed the annual regulatory report given to ASIC covering all ASX Group licensees, dated 23 August 2013, as required under s792F and 821E;
 - considered information received from and about ASX Group licensees in the ordinary course of ASIC's dealings with them as market or CS facility licensees;
 - considered information from external sources, including media and industry commentary; and
 - reviewed the operation of the market throughout the assessment period.

³ CPSS and the Technical Committee of IOSCO, *Principles for financial market infrastructures*, April 2012, www.bis.org/publ/cpss101.htm.

Focus areas for this assessment

- 16 For this assessment, when considering ASX Group's compliance with its statutory obligations, we paid particular attention to how ASX Group dealt with a number of specific issues outlined below:
- the sufficiency of its technological resources;
 - the operation and monitoring of the ASX 24 futures market during the assessment period, and the period 1 September 2013 to 3 October 2013;
 - its procedures for considering listing applications from emerging market issuers;
 - its arrangements for ensuring compliance with the recently introduced capital-raising initiatives for small and mid-cap companies;
 - its processes for ensuring that fraudulent or unauthorised announcements are not made to the market through ASX Group's market announcements platform (MAP);
 - its processes for identifying and managing any conflicts of interest concerning its directors;
 - the operation and supervision of ASX Group's CS facilities;⁴ and
 - its progress against the agreed actions from our previous assessment.

Nature of licence obligations

- 17 A market licensee (such as ASX Limited or Australian Securities Exchange Limited) must meet a number of licence obligations, including:
- having adequate arrangements for operating the market, including the requirement that it have adequate arrangements for monitoring and enforcing compliance with its operating rules and handling conflicts of interest; and
 - having sufficient financial, technological and human resources to properly operate the markets.
- 18 The market licensee must also meet its overarching obligation to operate a market that, to the extent reasonably practicable, is fair, orderly and transparent. As this obligation underlies all the other licensee obligations, a market licensee that is not meeting one of its other licensee obligations is also likely not to be meeting this obligation.
- 19 A CS facility licensee (such as ASX Clear Pty Limited) must also meet a number of licence obligations, including:

⁴ This is the first assessment where we have included separate commentary on ASX Group's CS facilities.

- having adequate arrangements for supervising the CS facility, including arrangements for handling conflicts of interest and enforcing compliance with its operating rules; and
- having sufficient financial, technological and human resources to properly operate its CS facility.

20 The CS facility licensee must also, to the extent reasonably practicable, meet its obligation to operate its CS facility in a fair and effective manner. As this obligation underlies all the other licensee obligations, a CS facility licensee that is not meeting one of its other licensee obligations is also unlikely to be meeting this obligation.

21 A licensee's obligations are ongoing and whether it is likely to comply with these obligations in the future cannot be judged merely by reference to its past compliance. We therefore use the assessment process to:

- reach conclusions about the adequacy of the arrangements a licensee has in place in accordance with its obligations under s792A(c) and 821A(c) at the time of the assessment;
- the sufficiency of a licensee's resources to ensure the proper operation of its facility; and
- identify issues, which in our view need, or may need, to be addressed to ensure ongoing compliance.

Adequate arrangements

22 In assessing how well a licensee is complying with its statutory obligations to have adequate arrangements in place to operate its markets and supervise its CS facilities, we consider whether a licensee has adequate arrangements to monitor and enforce its operating rules, and to handle conflicts of interest.

Arrangements for monitoring and enforcing operating rules

23 In determining whether a licensee is complying with its obligations to monitor and enforce its operating rules, we consider how the licensee:

- deals with listed entities and monitors disclosure to detect potential or actual non-compliance with the law or the market's operating rules;
- monitors trading, clearing, settlement and participant activity in respect of its operating rules to detect potential or actual non-compliance with the market's operating rules and CS facilities' operating rules;
- plans and documents procedures for ensuring frequent and comprehensive assessment of its ongoing compliance with its obligations, and ongoing compliance by listed entities and participants with their obligations;

- deals with actual or suspected breaches of the law or the operating rules, including remedial, disciplinary and other deterrent measures;
- deals with complaints about the market or participants; and
- shares information with ASIC and (where appropriate) operators of other markets and CS facilities.

Arrangements for handling conflicts of interest

- 24 ASX Group is a commercial organisation with a range of activities that support and facilitate capital raising, investment, trading and risk management and clearing and settlement. ASX Group also holds licences granted by the Minister to operate markets and CS facilities.
- 25 These licences require ASX Group to comply with a range of obligations and responsibilities. An important obligation of ASX Group is to ensure that it has adequate arrangements in place to handle conflicts of interest. While these obligations do not preclude the existence of conflicts, ASX Group must manage these so as not to allow its commercial interests to prevail over its statutory obligations.
- 26 Conflicts of interest may arise in any area where a market or CS facility licensee makes decisions with respect to monitoring and enforcing its operating rules. For example, conflicts of interest may arise in connection with decisions about:
- admitting a person to the market as either a participant or a listed entity;
 - monitoring a listed entity or market participant;
 - providing services to an unrelated approved market operator (AMO) through a CS facility;
 - investigative or disciplinary action;
 - exercising discretions, such as granting waivers from the market or CS facilities' operating rules;
 - determining the fees schedule of a financial market or a CS facility, including any trading incentive programs and/or relevant shareholder rebates; or
 - participating in CS facilities operated by the market licensee or a related entity.
- 27 In assessing a market or CS facility licensee's arrangements for handling conflicts of interest, we consider a range of matters, including whether:
- under current arrangements, actual or potential conflicts of interest are reliably anticipated, identified and appropriately responded to;

- there is a sufficient level of disclosure to the market about the nature and existence of any actual or perceived conflict of interest, and the steps taken to adequately manage it; and
- the licensee's organisational and reporting structures separate its commercial activities from its monitoring activities to a significant degree.

28 For example, a suitable organisational and reporting structure is one where employees who are responsible for assessing the market or CS facility licensee's compliance with its monitoring obligations report to a person who is not responsible for making commercial decisions.

Sufficient resources

29 In assessing how well a licensee is complying with its obligation, under s792A(d) or 821A(d), to have sufficient resources to properly operate the facility, we consider:

- how the licensee makes available and uses resources for supporting its arrangements for operating the facility, taking into consideration:
 - the financial, technological and human resources made available compared with previous assessment periods; and
 - a general expectation that resourcing should increase in line with the licensees' operations, and that any reduction is appropriate only where changed circumstances or specific efficiencies can be clearly demonstrated;
- the licensee's information technology system 'uptime' and instances of market disruption; and
- our own experiences and observations, as well as those of market users, that there can be confidence that the market and CS facility will operate in a reliable manner.

Assessment findings

30 ASIC is satisfied that, in terms of the standards set out in the Corporations Act, during the assessment period, and in respect of the other specific matters reviewed that are noted in paragraph 16 of this report:

- the operators of the ASX and ASX 24 markets had adequate arrangements in place for meeting their statutory obligations under s792A(c), and the provision of those services was sufficiently resourced under s792A(d); and
- ASX Clear, ASX Settlement, ASX Clear (Futures) and Austraclear had adequate arrangements in place for meeting their statutory obligations under s821A(c), and the provision of those services was sufficiently resourced under s821A(d).

Agreed actions

- 31 Overall, our assessment concluded that ASX Group licensees met their statutory obligations in the assessment period, and in respect of other specific matters noted in paragraph 16.
- 32 However, there are seven agreed actions that focus on aspects of ASX Group's activities to ensure ongoing improvement in the operation of its facilities. While important, these do not detract from our overall conclusion.
- 33 The agreed actions can be found in Section B of this report.

Market conditions

- 34 A discussion of the market conditions and various market events for the assessment period is contained in Section C of this report. Some key features of the market conditions and events for the 2012–13 financial year, and during the more recent period, were:
- The S&P/ASX 200 increased by 17.3% during the 2012–13 financial year. The improved performance was in line with a general rebound in global equity markets over this period and has coincided with continued monetary stimulus measures by the world's largest central banks.
 - Volatility levels in Australian equity markets were broadly stable over the course of 2012–13. The period between June 2012 and December 2012 saw volatility more than halve from the previous year. However, from late February 2013 through to the end of the March quarter, volatility began rising. After trending downward throughout most of the June 2013 quarter, volatility levels rose sharply between mid-June and mid-July, reaching a peak of 20.3%.

Agreed actions from our previous assessment

- 35 In May 2013, we published our most recent assessment report of ASX Group, which included seven agreed actions: see Report 345 *Market assessment report: ASX Group* (REP 345).
- 36 ASX Group has completed all of the agreed actions from REP 345.
- 37 Details on the status of ASX Group's agreed actions from our previous assessment are set out in Section D.

Consultation

- 38 Our findings and recommendations are set out in Section B of this report. ASX Group has had the opportunity to view and comment on the factual accuracy of this report. Where appropriate, this report reflects ASX Group's comments.

B Agreed actions and observations

Key points

We have considered the adequacy of ASX Group's arrangements and resources for the operation and supervision of its markets and CS facilities.

Our view is that ASX Group licensees complied with their statutory obligations as they existed at the time of the assessment period. However, we have identified seven areas that are the subject of agreed actions.

These agreed actions focus on the ongoing improvement of the operation of ASX Group's facilities, including ASX Group's:

- technological resources (agreed action 1);
- obligation to monitor and enforce compliance with its operating rules (agreed actions 2–4); and
- obligation to provide fair and effective clearing and settlement services (agreed actions 5–7).

Although these agreed actions are important, they do not cause us to qualify our overall conclusion that ASX Group licensees met their statutory obligations during the assessment period.

Nature of agreed actions

- 39 Our assessment concluded that ASX Group licensees met their statutory obligations during the assessment period. ASX Group provides most of Australia's financial market infrastructure and is recognised as one of the leading exchange groups in the world. It is the eighth largest equity market in the world (as measured by free-float market capitalisation) and operates the largest exchange-traded interest rate derivatives market in the Asian region (fifth largest worldwide). It has continued to continuously operate in compliance with its obligations.
- 40 The agreed actions and observations in this report relate to matters which, in our view, focus on the ongoing improvement of the operation of ASX Group facilities over future periods.
- 41 Our agreed actions can be broken down into three categories:
- *technology*—the obligation for ASX Group licensees to have sufficient resources, including technological resources, to properly operate their markets and CS facilities;
 - *monitoring and enforcing compliance*—ASX Group's obligation to have adequate arrangements for monitoring and enforcing compliance with its operating rules; and
 - *clearing and settlement*—ASX Group's obligation to provide fair and effective clearing and settlement services.

Technology

42 Technology is a fundamental driver for providers and users of financial market infrastructure and, in the context of ASIC's strategic priorities, it is critical to the operation of efficient markets and for confident and informed investors. For this reason, technology is a key focus of our assessment of licensees. For this assessment, we focused on ASX Group's:

- management of technology projects;
- incident management processes;
- cyber security preparedness;
- business continuity and disaster recovery arrangements;
- processes for bringing trading system-related innovation to market and satisfying regulatory requirements; and
- management of any latency issues.

Management of technology projects

43 We reviewed ASX Group's technology projects valued over \$300,000 that were in progress during the assessment period and were used by participants. We paid particular attention to the governance arrangements for the following three projects:⁵

- *ASX collateral management project*—a new initiative that provides a centralised collateral management service with direct links to the Austraclear settlement system for the Australian wholesale debt market. In a further phase of the service, direct links will be provided to the Clearing House Electronic Subregister System (CHES) for the Australian equities market.
- *EXIGO insourcing project*—a previously vendor-supported application that will now be supported in-house by ASX Group.
- *Australian Market Regulation Feed (AMRF 1.4.9) project*—the conversion of the OMnet interface to Financial Information eXchange (FIX) format, the key market data surveillance interface for ASIC. The FIX protocol is an electronic communications protocol that is used for international real-time exchange of information for securities transactions and markets.

⁵ This included a review of project plans, project schedules, original budgets and final budgets, project status reports and minutes, risks and issues, project milestone slippages (including reasons) and, where relevant, post implementation review, 'lessons learned' and associated external communication milestone dates.

ASX collateral management and EXIGO insourcing projects

- 44 Our review of ASX Group's governance arrangements for the ASX collateral management and EXIGO insourcing projects found that they referenced, and were not inconsistent with, established industry practices.
- 45 The ASX collateral management project was delivered internally on time, within budget and to a sufficient level of quality. There were no reported issues regarding the new service bureau model or the new vendor relationship model.
- 46 The EXIGO insourcing project is ongoing. Progress is focused on the quality of technical and user documentation, and the adequacy of training for software development and support staff.

AMRF project

- 47 The AMRF is a FIX protocol real-time interface providing information from two market operators (ASX and Chi-X) on trading activities to enable ASIC to fulfil its market surveillance role as market regulator.
- 48 ASX Group has been providing this trading data to ASIC through an OMnet feed since 2010. The purpose of the project was the conversion from ASX Group's OMnet feed to the AMRF.

AMRF 1.4.9

- 49 The ASX AMRF 1.4.9 project involved mapping a 900 page OMnet specification (representing the data generated by the ASX Trade products for input into the ASIC surveillance system), into a 200 page FIX format specification, software development and associated testing.
- 50 There were multiple stakeholders associated with the AMRF 1.4.9 project, including market operators, software vendors and ASIC. The amount of time needed for clarification of the ASX AMRF/OMnet specification requirements, and the ensuing analysis, was not anticipated by all parties. Delays were subsequently experienced in seeking and receiving requirement clarifications.
- 51 The increasing number of clarifications sought by ASX resulted in some delays in obtaining responses from ASIC because of the complexity of the issues and the need to consult with a large number of internal stakeholders. This impacted the contingency originally built into the project schedule. The project was scheduled for a mid-December 2012 parallel run.⁶ However, a combination of last minute 'severity 1' issues at ASX (and numerous other lower-level severity issues) were contributing factors in an agreement to

⁶ During a parallel run, a new system and an existing system run side by side. As a result, ASIC received both an OMnet and AMRF feed from ASX Group.

delay implementation and introduce a phased approach for releases. The parallel run commenced in May 2013 with a cutover occurring in July 2013.⁷ ASX Group continued to provide trading data to ASIC through the OMnet feed without issue until it ceased at the end of November 2013.

- 52 Following the implementation of AMRF 1.4.9, ASX Group undertook a post-implementation review of the project and collated the 'lessons learned' to apply to the next AMRF 1.6 project. However, the collated 'lessons learned' did not include the processes of third-party vendors and vendor quality assurance practices when estimating the cost and duration for new projects which, in our view, impacted the timeliness of the AMRF 1.4.9 project delivery. We consider that any subsequent post-implementation reviews of AMRF projects should focus on these issues.

Agreed action 1: AMRF post implementation reviews

ASX Group has agreed that any subsequent post-implementation review of AMRF projects should also focus on the processes of third-party vendors' and vendor quality assurance practices when estimating the cost and duration of new projects.

AMRF 1.6

- 53 In the subsequent AMRF 1.6 upgrade project, which incorporated regulatory changes and innovations, the ASX Group vendor completed their required input on time and to a high standard.
- 54 The AMRF 1.6 project was due to go live on 28 October 2013, a date that was subsequently changed to 25 November 2013. The rescheduled date was made at the request of participants and market operators, and enabled the combination of already scheduled market operator non-AMRF releases with the AMRF 1.6 release. This reduced the number of releases for participants in October and November 2013.
- 55 The 25 November 2013 AMRF 1.6 upgrade was an industry-wide upgrade that included market operator innovations initiated by ASX and Chi-X, and regulatory changes initiated by ASIC (requiring participants to upgrade their systems at the same time).
- 56 ASX Group were also implementing changes associated with their trading system, which were not related to the AMRF upgrade, at the same time as the AMRF 1.6 upgrade.

⁷ A cutover is when the new system takes over. In this case, AMRF became the primary feed and OMnet became the secondary feed.

- 57 During the weekend of 23 and 24 November 2013, when AMRF 1.6 was due to go live, ASX Group decided to rollback to AMRF 1.4.9 due to messaging related issues found in the trading system component of their upgrade. The issue ASX Group discovered related to non-AMRF 1.6 software and was not identified by ASX Group's own testing or its vendor's testing.
- 58 We think that ASX Group should consider implementing non-AMRF trading system changes separately to AMRF releases. This strategy should reduce the risk of issues with one upgrade affecting the implementation of the other. At the same time, we recognise certain industry views that the larger the release number, the greater the cost and potential disruption to users of ASX Group's infrastructure. ASX should continue to try to ensure that the appropriate balance is struck between these (at times) competing priorities and expectations.
- 59 The decision by ASX Group to rollback AMRF 1.6 meant that competing market operators and participants also had to rollback their AMRF and non-AMRF upgrades. ASX Group's rollback scenarios and associated procedures were thorough, and the rollback was achieved successfully by all parties well ahead of time for trading to commence on Monday, 25 November 2013.
- 60 The root cause of the issue necessitating the rollback was identified by ASX Group and the vendor has delivered a solution that has been tested by ASX Group. We recommend that ASX Group review its vendor quality assurance policies and ensure they are being appropriately maintained and improved.
- 61 Chi-X rescheduled their AMRF 1.6 implementation to 9 December 2013. Chi-X successfully completed the upgrade on this date, as did the relevant participants. ASX Group and its participants successfully implemented AMRF 1.6 on 10 February 2014.

Incident management

- 62 We reviewed ASX Group's technology incident management procedures, focusing on its 'severity 1' and 'severity 2' escalation process, issue resolution and post-incident management and closure. The procedures outlined how issues were escalated internally, when external parties such as participants and regulators were to be contacted, relevant contact details, and definitions for the 'severity 1' and 'severity 2' categories to assist in classifying issues and escalating appropriately.
- 63 A number of changes to ASX Group's *Issues management and reporting and incident management procedures* documentation has been suggested by ASIC and discussed with ASX Group in recent months. These changes include modification to the after-hours notification procedure and other minor procedural changes.

Preparedness for cyber attack

- 64 ASIC reviewed ASX Group's extensive practices and procedures relating to its preparedness for cyber attack, including cyber intrusions, internet denial of service, distributed denial of service and external perimeters intrusion. ASX Group's approach continues to comply with the Department of Defence *Top 35 cyber security strategies*, to mitigate targeted cyber intrusions, and the *Open web application security project (OWASP) top 10*, which lists the 10 most critical web application security risks. This is supplemented by appropriate third-party testing and assessment.

Business continuity and disaster recovery

- 65 As part of our assessment, we reviewed ASX Group's business continuity and disaster recovery arrangements, including its plans and testing results.
- 66 ASX Group has co-ordinated testing for its ASX Trade and ASX Trade 24 systems involving the majority of its participants. Although some relatively minor issues were encountered, the testing was largely successful and will continue to be undertaken on a regular basis.

Trading system innovations and regulatory requirements

- 67 ASIC reviewed ASX Group's processes and procedures for bringing trading system innovations to the market and its arrangements for satisfying new regulatory requirements.
- 68 ASX Group's arrangements, which include an internal summary concept approval form, demonstrate that thought has been given to key issues. Processes are also in place to ensure that appropriate research and checks are undertaken by ASX Group in relation to the detailed description of the characteristics of the innovation, potential rule change impacts, scope of any technology change, including appropriate consultation with affected participants and early consultation with ASIC. ASX Group also uses rule-based templates for innovation assessment by their internal teams.

Latency issues

- 69 As part of our assessment, we looked at whether any latency issues had occurred that affected participants using ASX Trade or ASX Trade 24 during the assessment period.
- 70 Our assessment found that there were no confirmed latency issues on ASX Trade. However, for ASX Trade 24, there were a couple of instances of equipment malfunction or configuration issues that had an impact on one or two gateways.

- 71 We also reviewed the scheduling of software releases by ASX Group and production defects experienced in the ensuing period. There were no formal complaints received by ASX Group from participants regarding the quality of software releases during the assessment period. ASX Group adhered to its policy of providing sufficient notice to participants regarding its software upgrades.

Monitoring and enforcing compliance

- 72 The second category of recommendations relate to ASX Group's obligation to have adequate arrangements for monitoring and enforcing compliance with its operating rules. In this assessment we paid particular attention to ASX Group's:
- operation and monitoring of the ASX 24 futures market during the assessment period and the period between 1 September 2013 and 3 October 2013;
 - procedures for considering listing applications from emerging market issuers;
 - arrangements for ensuring compliance with the recently introduced capital raising initiatives for small and mid-cap companies; and
 - processes for ensuring that fraudulent or unauthorised announcements are not made to the market through ASX Group's MAP.

ASX 24 futures market

- 73 ASX Group's derivatives business is its largest,⁸ and for the year ended 30 June 2013 it contributed 32% of group revenue. Since 30 June 2009, contract volumes on the ASX 24 market have increased by 80% from \$64.1 million to \$115.6 million as at 30 June 2013.
- 74 It is therefore important, given the growth and magnitude of ASX Group's futures business, that ASX Group have appropriate arrangements in place to monitor and enforce the operating rules of these markets, to ensure that they operate in a fair, orderly and transparent manner.
- 75 In assessing ASX Group's arrangements for monitoring the ASX 24 futures market, we reviewed certain issues which were brought to our attention: see paragraphs 76–107.

⁸ This business includes exchange-traded equity and index options on ASX-listed equities, interest rate futures and options, equity index (SPI 200) futures and options, agricultural and energy futures and options and contracts-for-difference (CFDs) on ASX-listed equities.

ASX New Zealand electricity futures

- 76 ASX New Zealand electricity futures are standardised and centrally cleared financial contracts, which are structured as cash-settled contracts for difference (CFDs) against two grid reference nodes (Otauhu and Benmore) in the New Zealand electricity market. They provide a mechanism for companies with interests in, or exposure to, the New Zealand electricity market to manage their price and counterparty risks. NZX Limited (NZX) provides settlement prices to ASX Group.
- 77 On 3 October 2013, ASX 24 Notice 167/13 *ASX New Zealand Electricity Futures – Notification of delay of final spot settlement prices for 20 September 2013* (ASX 24 Notice 167/13) was issued, notifying of a delay in the final spot settlement prices of ASX New Zealand electricity futures for 20 September 2013. Participants were advised that the Pricing Manager (NZX) was unable to issue final prices for 20 September 2013 pending a pricing error claim.
- 78 On 8 October 2013, ASX 24 Notice 173/13 *ASX New Zealand Electricity Futures – Final Spot Settlement Prices for 20 September 2013* (ASX 24 Notice 173/13) was issued, notifying participants that the Pricing Manager of NZX had issued final prices for 20 September 2013, following the resolution of the pricing error claim advised in ASX 24 Notice 167/13.
- 79 We were initially concerned about the length of time it took ASX Group to advise the market about the existence of a pricing error claim, so we reviewed all notices relating to the issue, the positions held in the relevant contract, all email correspondence and ASX Group's procedures for daily settlement price determination.
- 80 ASX Group was first notified of a pricing error claim by NZX on 3 October 2013, which led to the issue of ASX 24 Notice 167/13. After our discussions with ASX Group, the relevant contracts ceased trading on 30 September 2013 and were settled on 3 October 2013, at which point the market was notified that the settlement price used was an interim price due to the pricing error claim. ASX Group also advised that, under Part 4 of the ASX Clear (Futures) Operating Rules, any payments used to fund changes to the settlement price (or any margin requirements) are the responsibility of the clearing participant, who in turn should ensure that its clients have the funds to cover such payments.
- 81 Our discussions with ASX Group also uncovered a lack of documented procedures for responding to a notification of a pricing error claim by NZX, and the processes to be followed to advise the market.
- 82 While we understand that these events are rare, and that the rules for spot prices lie with NZX, we encourage ASX Group to discuss the timing of the notification of pricing error claims with NZX, and incorporate the outcome

of these discussions in its procedures. This will help ensure that notification of any future pricing error claims to the market happens in a timely manner.

Suspense accounts

- 83 Suspense accounts are used by participants to place any positions that are waiting on final account allocation from the related broker or client. For example, a client made a trade for 100 ASX SPI 200 Futures contracts for September 2013 (APU3), but had not advised which of their accounts the trade was to be placed into. The position was therefore placed into a suspense account until the client advised of the correct account. Alternatively, the position in the suspense account could relate to the broker's principal trading activities and be waiting on allocation to the relevant trading book.
- 84 Following a review of Daily Beneficial Ownership Reports (DBORs), we identified two positions in the APU3 contract on 17 September 2013, which were being held in a participant's suspense account. One position was designated as a house position (i.e. the suspense account for the participants' principal trading) for 5,000 contracts and the other position was designated as client position for 3,026 contracts. We wanted to ensure that ASX Group had also identified these positions, and reviewed them appropriately to determine why these positions were being held in suspense accounts.
- 85 Following a review of ASX Group's documentation, it appeared that daily exception reports did not highlight the two identified positions held at the end of day in the participant suspense accounts. ASX Group confirmed that suspense account positions will appear on daily exception reports where they trigger internal exception thresholds determined by ASX Group. In this instance, both examples fell under the internal exception thresholds and did not appear on the reports. ASX Group has confirmed to ASIC that each of the identified accounts were grouped to other accounts so they were included in the expiry and position limit monitoring conducted during the period. ASX Group also indicated to ASIC that any positions in a suspense account are listed on the all position reports, as was the case in this particular situation.
- 86 ASIC has concerns with participants carrying positions in suspense accounts because there have been cases where participants have inappropriately misused suspense accounts, contrary to market integrity rules. For example, to place client holdings into suspense to allow the client to avoid paying margins for the day. In addition, during roll periods a participant may place a particular client account into suspense to avoid position limits.⁹

⁹ A roll period is the time one contract is coming up to expiry, and those holding positions in that contract must 'roll' their position into the next available contract.

- 87 In our discussions with ASX Group, they confirmed that in the two cases we had identified they did not contact the participants to determine the nature of the positions and why they were being held in the suspense accounts.
- 88 At present, other than exception and expiry monitoring, ASX Group do not appear to be reviewing every suspense account that holds a position. Although they did note that as part of a review of the grouping process they will be looking at the usage of such accounts.
- 89 It appears that there is currently a gap in the review of suspense account positions because ASX Group does not contact participants to confirm that the positions held within those accounts are for a legitimate purpose, and not to inappropriately hide positions for a particular purpose.
- 90 To assist ASIC in its role of identifying breaches of market integrity rules, ASX Group has agreed to introduce a daily report to monitor the use of suspense accounts. The frequency of the reports will be reviewed at the end of the 2014 calendar year. If, as a result of reviewing suspense accounts, ASX Group identifies a potential breach of the market integrity rules, it will refer the matters to ASIC.

Agreed action 2: Suspense accounts

ASX Group has agreed to introduce a daily report to monitor the use of suspense accounts, to assist ASIC in the process of identifying potential breaches of market integrity rules. If, as a result of reviewing suspense accounts, ASX Group identifies a potential breach of the market integrity rules it will refer the matters to ASIC. ASX Group's procedures should be updated to reflect the changes. The frequency of the report and monitoring will be reviewed at the end of 2014 calendar year to ensure it remains appropriate.

Overnight option pre-open

- 91 On 22 April 2013, we were made aware of an issue with the pre-open for overnight options. The market open phase occurred, as usual, at 5.10 pm.
- 92 We wanted to understand the nature of the incident, in particular, why it took ASX Group until 5.19 pm, on 22 April 2013, to send a message to the wider market about the issue. We reviewed an ASX Group incident report and relevant correspondence about the issue.
- 93 Following a review of the documentation, we confirmed that there was no pre-open for overnight options on 22 April 2013. This was because a manual process performed by ASX Group's Trading Operations unit (ASX Trading Operations) had not been carried out appropriately. The manual process

involves identifying which strikes within a range will be opened for that session, and activating them so that when the automatic timers activate, the relevant strikes are opened.¹⁰

- 94 In this instance, the operator made an error by selecting and opening the strikes rather than just activating them. The operator realised their error but in the time it took to attempt rectification a trade occurred. While cancelling the trade, ASX Trading Operations were of the view that the market had moved into what appeared to be a pre-open state. However, it was not until participants started to contact ASX Group to notify them that orders could not be entered that ASX became aware that pre-open did not occur. Instead the market went straight to open at 5.10 pm.
- 95 Our review revealed a file note which stated that ASX Trading Operations had called some brokers to advise of the issue. We wanted to ascertain who had been called and why the matter had not been advised to the broader market. ASX Group clarified that the calls made were only in response to brokers that had called them, and no additional calls were made to the wider broker audience.
- 96 We queried ASX Group about the time it took to put a message out to the market advising that there had been no pre-open. ASX Group informed us that their first priority was to ensure that the market opened as normal at 5.10 pm, and that orders and trades were occurring normally. Once that had been confirmed, several minutes elapsed before the message was sent to the wider market. Although sending a message through the trading platform is usually one of the first steps that ASX take when dealing with a market incident, in this case, the time at which the incident occurred meant that there was an opportunity to rectify the issue ahead of the market opening. In this instance, ASX prioritised the rectification of the issue to reduce the time the product was unavailable. As a consequence, it was only the pre-open phase that was unavailable for the session and the product opened on time.
- 97 Our discussions also touched on whether ASX Group had learnt any lessons, or changed its processes, as a result of the incident. ASX Group advised that it had implemented a new timers module¹¹ and were confident the exact scenario would not occur again. Despite implementation of the new timers module, activation of the strikes is still a manual process.
- 98 Given the evidence, and our own discussions with ASX Group, we believe a similar event could occur in the future because the activation of strikes

¹⁰ An option gives the buyer the right but not the obligation to buy or sell the option at a pre-determined price. The pre-determined price is the strike price of the option. Different 'strikes' will be offered depending upon where those trading see the best value to trade.

¹¹ A timers module is a software application used to manage the transition of a futures contract from one trading session into the next trading session.

remains a manual process. Although ASX Group have stated that broader communication in such events is preferred, there does not appear to have been any formal assessment of how communication could have occurred sooner in this instance—or how broader communication in a timely manner may be achieved should a similar situation occur in the future.

Agreed action 3: Overnight option pre-open

ASX Group has agreed to:

- review the manual process it uses for activating the strikes and assess ways to prevent such an event occurring in the future;
- review the timeliness of the message to the market in this instance and assess how the whole market may have been informed sooner; and
- apply its findings to a broader process for informing the whole market when technical matters relating to markets occur in the future.

Expiry position monitoring

- 99 As a result of our previous assessment in Report 265 *Market assessment report: ASX Group* (REP 265)—where we had some reservations about ASX Group’s monitoring of futures contracts, particularly around expiry—ASX Group agreed to recommence monitoring all ASX 24 futures contracts at a client account level throughout the life of the contract, and review with ASIC the effectiveness of this activity over the next year.
- 100 We had a number of discussions with ASX Group in the previous 12 months about how it monitored futures positions. ASX Group has since implemented a number of enhancements to this process, including exception reporting (i.e. an automated process used to highlight large positions throughout the life of a futures contract).
- 101 As part of our assessment we wanted to test how these new processes were operating in practice, so we reviewed ASX Group’s documentation for the June 2013 bond roll.
- 102 Our assessment found that ASX Group appears to have appropriate procedures for expiry position monitoring that are followed in practice during each roll period.¹²
- 103 However, in our discussions with ASX Group, ASX Group explained that part of its monitoring processes involve holding daily bond expiry meetings during the contract expiry period. These meetings included members from a number of teams within ASX Group. Participants at these meeting are

¹² The roll period can display significant volatility as traders seek to exit one position in the expiring contract and open a new position in the next contract.

provided with a report detailing grouped account client positions, which is prepared by the ASX Compliance unit (ASX Compliance).

104 The bond expiry meetings are used to monitor the progress of the roll period and ensure the market is being conducted in a fair, orderly and transparent manner. These meetings discuss the level of trading in the underlying bond market and the size of positions in the futures market that may be of concern. This process is reflected in ASX Group's procedures.

105 Our discussions also identified that there are a number of processes that ASX Group undertakes in practice, which are not reflected in its procedures. These include:

- Production and review of a bond roll pre-expiry report produced by ASX Group's Interest Rate Products unit (which is part of ASX Business Development).
- Specific staff members of the ASX Derivatives and OTC Markets Team (which is part of ASX Business Development) participate in bond expiry meetings to provide input, including product specific information and advice on how the market works. Due to the potential for these staff members to be made aware of commercially sensitive position data in these meetings, there are conflict handling arrangements in place and staff are required to be mindful of these obligations.
- The use of confidential DBOR data, which is used to produce the grouped account client positions reports, is covered under contract by ASX 24 Operating Rule 6721 which specifies how that information may be used by ASX.

106 Although ASX Group's current procedures provide some detail on the bond expiry meetings, the procedures could be expanded to reflect their current practices, including providing details of the bond roll pre-expiry report and how it is produced. In addition to the general policies and procedures in place for conflicts handling arrangements, reference should also be made to the potential for conflicts of interest, ASX Group's conflict handling arrangements and the use of DBOR data under ASX 24 Operating Rule 6721.

Agreed action 4: Expiry monitoring

ASX Group has agreed to expand its procedures to include details of the bond roll pre-expiry report and how it is produced, the potential for conflicts of interest, conflict handling arrangements and the requirements imposed by ASX 24 Operating Rule 6721 regarding the use of DBOR data.

Listing rules

- 107 The effective monitoring and enforcement by a market operator of its listing rules is critical to ensure that investors are confident and able to make informed decisions.
- 108 Day-to-day oversight of listed entities' compliance with the ASX Listing Rules is undertaken by ASX Group's Listings Compliance unit (ASX Listings Compliance), a division of ASX Compliance.
- 109 For this assessment, we paid particular attention to ASX Group's processes for:
- considering listing applications from emerging market issuers;
 - ensuring compliance with the recently introduced capital-raising initiatives for small and mid-cap companies; and
 - ensuring that fraudulent or unauthorised announcements are not made to the market through ASX Group's MAP.

Emerging market issuers—prospectus reviews

- 110 Emerging market issuers make up one-third of all ASX-listed entities. Emerging market issuers are ASX-listed entities with significant operations or assets in emerging markets such as Eastern Europe, Asia, the Pacific (excluding Singapore, Hong Kong, Japan and New Zealand), Africa, South America or the Middle East.
- 111 Emerging market issuers listing on ASX create challenges for ASX Listings Compliance staff when reviewing offer documents associated with a new listing. As described in Report 368 *Emerging market issuers* (REP 368), we found that there are a number of challenges faced by entities that are operating in, or have significant exposure to, emerging markets, including:
- implementing good corporate governance and management systems;
 - operating through complex ownership or contractual arrangements; and
 - difficulties in accessing or verifying reliable information about an entity's operation and performance.
- 112 As a result of our previous assessment in REP 345, ASX Group agreed to revise its policies and procedures in relation to reviewing prospectuses and product disclosure statements (PDS) lodged with ASX as part of a new listing: agreed actions 4–7 in REP 345. These revised policies and procedures must be accompanied by a comprehensive prospectus or PDS checklist for ASX Listings Compliance staff reviewing offer documents.
- 113 We welcome the implementation of more comprehensive policies and procedures for prospectus and PDS reviews generally, in light of recent

matters with which our engagement with the ASX has demonstrated room for improvement.

- 114 As part of our assessment, we reviewed the offer documents of three emerging market issuers. During this review we found that although ASX Group has clearly enhanced its approach in this area, these files did provide some evidence that ASX Group practices could be further improved when reviewing offer documents for emerging market issuers. For example, of the three emerging market issuer files we reviewed, only two contained evidence that the Compliance Officer had completely reviewed the offer documents—and, although all three files related to companies with complex operating or ownership models and challenges in the corporate governance space, there is evidence to show that ASX only analysed the business structure and objectives of one of these companies in detail before admission to listing.
- 115 However, we acknowledge the work that ASX Listings Compliance staff are doing in relation to emerging market issuers incorporated off-shore, by ensuring that these entities make disclosures in accordance with paragraph 3.2 of ASX Guidance Note 4 *Foreign Entities Listing on ASX* (GN 4). We consider these disclosures to constitute important information for the market and encourage ASX Group to continue applying this approach.
- 116 ASX Group has also demonstrated a commitment to more detailed reviews of emerging market issuers. For example, ASX Group raised concerns about the legitimacy of one company's spread and followed up with the company's external service providers to confirm its legitimacy, which resulted in the company withdrawing its application. We acknowledge and support detailed investigations and reviews of this type, where ASX Listings Compliance identify issues of this nature.
- 117 Subsequent to the assessment period, we were provided with a copy of the draft prospectus and PDS checklist, which includes reference to a variety of matters relevant to the review of an emerging market issuers' offer document.
- 118 We support the inclusion of these matters in the draft prospectus and PDS checklist, and consider that requiring ASX Listings Compliance staff to turn their mind to these matters will assist in identifying significant issues in relation to emerging market issuers in a timely manner. This approach will also encourage open communication with ASIC where significant issuers are identified.
- 119 ASIC is also committed to continued consultation with ASX Group on the structure and form of the revised policies and procedures to ensure that the prospectus and PDS checklist contains adequate material in relation to emerging market issuers.

120 ASX Group provided its revised policies and procedures to ASIC. We are satisfied that the revised policies and procedures adequately reflect agreed actions 4–7 from our previous assessment.

Capital raising by small and mid-cap companies

121 ASX Group's new fundraising rules for small and mid-cap companies came into effect on 1 August 2012. One of ASX Group's aims for introducing these rules was to help improve access to capital and funding for small to mid-cap companies.

122 Under the previous rules, a company was able to issue up to 15% of its issued capital on a non-pro-rata basis without shareholder approval in any rolling 12 month period. The new rules allow an eligible company to issue an additional 10% of its issued capital, bringing its total placement capacity to 25%: see ASX Listing Rule 7.1A. The new requirements include:

- *Eligibility:* A company must not be in the ASX/S&P 300 Index and must have a market capitalisation of less than \$300 million as at the date of the annual general meeting (AGM).
- *Approval:* A company must obtain shareholder approval by special resolution (i.e. at least 75% in favour).
- *Discount:* The additional 10% of capital raised can only be discounted to a maximum of 25% to market price.
- *Disclosure requirements:* New disclosure requirements apply when the special resolution is proposed at the AGM, when securities are issued and when any further approval is sought. Disclosures to include the purpose of the issue; impact on current shareholders; the allocation policy; why the issue is being made through a placement and not as or in addition to a rights issue; and the fees and costs involved.

123 As part of our assessment, we reviewed ASX Group's processes for monitoring and ensuring compliance with these new fundraising rules, including reviewing internal correspondence between ASX Group and listed entities, and ASX Group's records on the timeliness of disclosure under ASX Listing Rule 3.10.5A.

124 The risk associated with these rules is that increased capacity could lead to circumstances where certain shareholders or parties could be advantaged under these placements to the detriment of other existing shareholders. As such, specific rules were made to reduce these risks, including obtaining approval by members of a mandate to make the placements at an AGM, restrictions on pricing of issues and timely disclosure when the placements take place.

125 Overall, our assessment did not note any significant issues of concern with ASX Group's monitoring of compliance with the new fundraising rules. Our

review noted that ASX Group followed up with listed entities where it had identified issues with disclosure required under the ASX Listing Rules.

126 ASX Group has stated that it will be issuing a report on the operation of the first two years of the new ASX Listing Rules in late 2014.

Market announcements platform

127 The MAP is the various information technology systems used by ASX Group to electronically process, release and store announcements by or about listed entities and issuers of other ASX products, or users of ASX Group services. ASX Group's Market Announcements Office (MAO) is the business unit responsible for receiving, processing, releasing and storing market announcements.

128 The MAO receives the bulk of its announcements electronically through ASX Online,¹³ and processes, releases and stores them electronically through MAP. ASX Online is a secure extranet site provided by ASX Group to facilitate the electronic lodgement of announcements with ASX and their dissemination to the market through ASX Group's MAP.

129 ASX Group's MAO and MAP support the timely flow of information from listed entities to the market, and play an important role in ensuring that investors have access to information in a timely manner.

130 As part of our assessment, we wanted to explore ASX Group's processes for ensuring that fraudulent or unauthorised announcements are not made to the market through the MAP.

131 For announcements that are e-lodged through the ASX Online portal, robust security arrangements are in place, including requiring users to have username and password authentication. Each individual granted access to ASX Online by an administrator (within the listed entity) must have a separate unique username and password. Passwords need to be reset every 45 days.

132 ASX Group also has back-up fax lodgement facilities in place. ASX Group statistics show that approximately 2,956 (2.5%) of the 117,047 announcements it received during the assessment period were received by fax.

133 This back-up facility is primarily for use by persons other than listed entities who do not have access to ASX Online and who need to provide a document to ASX as a market operator under the Corporations Act. ASX Group stresses that, as far as listed entities are concerned, the fax lodgement facility

¹³ ASX Group statistics show that 97.5% of the 117,047 announcements were received electronically through the ASX Online portal for the assessment period.

is strictly for use as an emergency back-up facility if ASX Online is unavailable, or if a listed entity is having technical difficulties accessing it.

- 134 We also examined ASX Group's arrangements for ensuring that any announcements it receives by fax, in the absence of ASX Online security protocols, are properly authorised. Faxed announcements received are channelled through software to a fax gateway, which enables screen-based processing. An initial check involves scrutinising the source, relevant contact details, content and materiality, before the fax is committed from the fax gateway to the MAP work list. A secondary check is then conducted at the announcement processing stage. If in doubt, advice is requested from the relevant Listings Compliance Adviser. Takeover announcements received by fax are reviewed by the Listings Compliance Adviser to ensure that the offer is from legitimate parties.
- 135 According to ASX Group, it is normal practice for a listed entity to inform either MAO, or its Listings Compliance Adviser, in the event it is unable to e-lodge its announcement. Therefore, in most cases, MAO is fully aware that the company will be lodging its announcement by fax. Without prior alert or contact from a listed entity, AMA or the Listings Compliance Adviser will query the relevant entity upon receipt of a faxed announcement to confirm its authenticity.
- 136 Overall, it appears that ASX Group has adequate arrangements to minimise the risk of unauthorised information being released to the market through MAP. Although the risk of unauthorised information being released is greater following receipt of a faxed announcement, because of the absence of authentication protocols similar to ASX Online, ASX Group's internal checks and balances appear to mitigate this risk appropriately, particularly given the relatively small number of announcements received this way.

Conflicts of interest

- 137 ASX Group has an ongoing obligation to ensure that it has adequate arrangements for managing conflicts between its commercial interests, ensuring that its market operates in a fair, orderly and transparent manner, and that its clearing and settlement services are fair and effective.
- 138 On 19 September 2013, two non-executive ASX Limited directors, Mr Russell Aboud and Mr Shane Finemore, resigned from the board. In an address to shareholders at the AGM on 25 September 2013, the ASX Limited Chairman provided greater detail on the directors' resignations. The resignations followed an announcement from the US Securities and Exchange Commission (SEC) on 16 September 2013, detailing enforcement actions against 23 firms operating in the United States for a rule violation regarding short selling of equity securities.

139 One of the firms involved was Manikay Partners LLC (Manikay),¹⁴ a New York-based hedge fund, of which Mr Finemore is Managing Partner and Mr Aboud is Chairman. As a result of their resignations, ASIC sought to understand the framework ASX Group has in place to identify a director's external business interests, and its processes to ensure these interests are managed to avoid any conflicts of interest impeding their ability to bring independent judgment or act in the best interests of ASX Group. We also wanted to further explore the circumstances surrounding the resignations.

Framework for identifying, assessing and managing conflicts

140 Our assessment found that ASX Group has a comprehensive framework, including a number of policies and procedures to identify, assess and manage directors' conflicts of interest. ASX Limited's board requires that a majority of its directors must be independent. In determining this, the board considers whether each director is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the independent exercise of a director's judgement. Its processes include:

- *Appointment-related processes:* When considering potential director candidates, the ASX Limited board and the ASX Nomination Committee give consideration to the business and other relationships of the candidates. At the time of making an offer of appointment to a new director, the director is required to familiarise themselves with various policies and procedures and provide ASX Group with a completed declaration of interests schedule.
- *Ongoing processes:* Before distributing agenda papers ahead of any ASX Limited board meeting, the Company Secretary considers whether there are any conflicts of interest. The agenda papers provided to directors ahead of each board meeting include a standing item 'Restricted list and directors' interests'. Directors review the list and advise the Company Secretary of any changes. At each board meeting, this standing agenda item is considered by the directors, and any updates are discussed. Furthermore, and as a condition of appointment, each director is required to notify any changes in interests to the General Counsel and Company Secretary as soon as practicable following the change. Where it is considered that a director has a conflict of interest, it is noted and, where appropriate, the relevant director absents themselves for that specific item of business.

¹⁴ <http://www.sec.gov/litigation/admin/2013/34-70401.pdf>.

- *Annual processes:* A formal annual review is also undertaken by the ASX Limited board to assess each director's independence. The 2013 review, conducted in May, found that all directors, other than Mr Funke Kupper (who is not independent by virtue of his role as Managing Director and CEO) were independent.

Circumstances around appointment and resignation

- 141 Mr Aboud and Mr Finemore joined the board of ASX Limited in July 2005 and June 2007 respectively. Manikay was established in June 2008 by Mr Finemore and his interest was entered into the register of interests at the time. Mr Aboud joined Manikay in August 2008 and at the time the ASX register of interest reflected this event.
- 142 In accordance with standard ASX Limited practice, permission was sought from the ASX Chairman and a private board discussion took place. Mr Aboud also stood to be re-elected as a director in 2008. The ASX Limited board was aware of the association and evaluated both individual's ability to make independent judgement. After considering their particular skills and markets experience, the board concluded that they were fit to continue as ASX Limited directors. While there was no formal record outlining the basis for this outcome, ASX Limited protocol is that these decisions become formalised by recommending re-election of directors and adoption of the formal notice of meeting.
- 143 When the SEC announcement was made the directors tendered their resignations from the ASX Limited board without delay. In the SEC administrative proceeding, Manikay agreed on a settlement without admitting or denying the claim and neither director was named in the SEC notification. However, they decided it was in the best interests of ASX Group to resign to protect the entity from any potential reputational damage.
- 144 In considering these events, ASIC noted that there was no technical governance issue or breakdown in ASX Group's framework for identifying, and/or managing directors' conflicts of interest.

Clearing and settlement facilities

- 145 The licensed CS facilities and their functions within ASX Group are:
- ASX Clear Pty Limited (ASX Clear) (CCP);
 - ASX Clear (Futures) Pty Limited (ASX Clear (Futures)) (CCP);
 - ASX Settlement Pty Limited (ASX Settlement) (SSF); and
 - Austraclear Limited (Austraclear) (SSF).

- 146 This section of the report should be read in conjunction with the RBA's most recent assessment report on ASX Group, published in September 2013.¹⁵ The RBA and ASIC have joint regulatory oversight of CS facility licence holders. ASIC is not required to assess ASX Group's compliance with the FSS and the 'reduce systemic risk' obligations of s821A(aa) of the Corporations Act. This is the RBA's responsibility and, therefore, those areas will not be covered in our assessment.
- 147 In reaching a view about whether ASX Group's CS facility licensees met their various obligations, we considered:
- the introduction of the Chicago Mercantile Exchange Standard Portfolio Analysis of Risk (CME SPAN) margining system to the ASX cash and exchange traded options (ETO) markets;
 - ASX Group's stakeholder relationship and consultation procedures for Austraclear;
 - the operation of the Trade Acceptance Service (TAS);
 - the sufficiency of human resources devoted to the operation and supervision of its CS facilities; and
 - the CPSS-IOSCO Principles that are relevant to ASIC's regulatory remit.

Margining

- 148 At the RBA's request, ASX Group introduced cash market margining in June 2013 as a means of enhancing the risk management controls of ASX Clear and achieving a reduction in systemic risk in the Australian cash market. ASX Clear's approach to calculating cash market margins is consistent with international best practice and ensures that ASX Clear maintains a 'user pays' infrastructure.
- 149 ASX Group has adopted the widely used CME SPAN margining system developed and implemented by the CME in 1988. In the years since its inception, CME SPAN has become the industry standard for portfolio risk assessment. It is the official margin mechanism of 50 registered exchanges, clearing organisations, service bureaus and regulatory agencies throughout the world.
- 150 The introduction of CME SPAN margining to ASX Group's cash and ETO markets generated significant comment from clearing participants and some complaints from retail customers.

¹⁵ RBA, *2012/13 Assessment of ASX Clearing and Settlement Facilities*, report, September 2013, www.rba.gov.au/payments-system/clearing-settlement/assessments/2012-2013/pdf/report-2012-2013.pdf.

- 151 The general view among clearing participants, particularly wholesale participants, is that CME SPAN has improved ASX Group's margining methodology. This is primarily because CME SPAN takes account of changes in volatility, time, the underlying price, and breaks the directional margining nexus used by the previous Clearing Member Theoretical Intermarket Margin System (CM-TIMS) model. Under CM-TIMS, the assumption was made that movements in equity prices are highly correlated, so single directional moves were assumed for all stocks (i.e. the whole market would either be moving up or down on a given day).
- 152 However, given the significant nature of the changes being introduced by CME SPAN 4.0, there appeared to be a degree of initial confusion from some clearing participants and software vendors about how SPAN would work and the expected outcomes.
- 153 ASX received a number of inquiries and requests from clearing participants for information relating to CME SPAN calculations, in particular, how vendor systems were handling such calculations during the period immediately following implementation. These inquiries were not recorded in ASX Group's complaints registers because they were managed as part of the project. We noted that if a complaint or inquiry came from an individual investor, details of the complaint were normally recorded in the complaints register. The conclusion we drew from this is that there appears to be an inconsistency in how clearing participant queries and complaints about the introduction of CME SPAN were handled.
- 154 We consider it is important that ASX Group capture significant complaints made by clearing participants (and the corresponding responses) within the complaints handling system to improve transparency in this area. This is also consistent with the approach taken for individual investor complaints.

Agreed action 5: Clearing participant complaints

Consistent with the approach taken for individual investor complaints, ASX Group has agreed to capture significant clearing participant complaints and corresponding responses within its complaints handling system.

ASX Group's stakeholder relationship and consultation procedures for Austraclear

- 155 Austraclear provides a wide range of depository, registration, cash transfer and settlement services for debt instruments and securities in financial markets in Australia and the Asia-Pacific region.
- 156 During and subsequent to the assessment period, we became aware of feedback from members of Australia's investment administration sector indicating dissatisfaction with information flow and transparency

surrounding some ASX Group decisions, particularly in relation to Austraclear fee changes. These issues were first communicated to ASX Group in June 2012.

157 The establishment by ASX of a regular means through which participants of Austraclear may engage with ASX on relevant matters will provide consistency with ASX's service offerings for its equity, OTC and exchange-traded derivatives businesses. This mechanism also aligns with substandard 2.8 of the FSS for SSFs. ASX Group have taken steps to give effect to this by introducing the Austraclear Advisory Committee, which is made up of up to 10 user representatives, and representatives from the RBA and the Australian Financial Markets Association. The Austraclear Advisory Committee held its first meeting on 31 March 2014 and will meet quarterly. Its role will be to provide user input on the design, operation and future development of Austraclear.

Trade Acceptance Service (TAS)

158 ASX Group developed the TAS to enable AMOs to clear and settle their equity trades on the same basis as trades executed on the ASX market. This service commenced on 31 October 2011.

159 The TAS permits transactions in CHESSE-eligible, ASX-quoted securities traded on AMO trade execution platforms to be accepted by ASX Group for clearing and settlement in an identical fashion to trades executed on the ASX cash equity market. The TAS is provided by ASX Clear and ASX Settlement directly to AMOs.

160 As part of our assessment, we reviewed the operation of ASX Group's TAS, with a particular focus on information handling standards.

161 The TAS legal terms of service provide that if ASX Clear and ASX Settlement acquire actual knowledge of competitively sensitive information in the course of providing the TAS, they will implement, as an operational standard, appropriate safeguards to protect that information.

162 To action this, ASX Clear and ASX Settlement have introduced an *Information handling standard* for the protection of confidential information (including competitively sensitive information), that ASX Group may acquire in connection with the provision of the TAS.

163 Competitively sensitive information is referred to as 'AMO conflict-sensitive information' in the *Information handling standard*. An AMO that seeks to share conflict-sensitive information with any member of ASX Group is asked to initially provide the information in writing to the General Manager, Regulatory Assurance. A suitable distribution list is then agreed with the AMO, based upon those ASX Group employees who require the

information for the provision of the TAS or to discharge the regulatory obligations of ASX Group.

164 Both during and subsequent to the assessment period, we became aware of customer concerns with aspects of the TAS operation and some of its governance arrangements. Several, but not all, of these concerns have been recorded by ASX Group in its complaints register or in the clearing and settlement issues register.

165 We believe that ASX Group should maintain a separate complaints register for complaints it receives regarding the operation of the TAS. This will provide a greater level of visibility around the issues that are being raised and ASX Group's action in response to them.

Agreed action 6: Establishment of TAS complaints register

ASX Group has agreed to establish a TAS complaints register to capture issues with the operation of this service.

166 Overall, our assessment is that ASX Group has implemented robust controls and procedures to manage the handling of competitively sensitive information. Despite this, there may be additional actions that can be taken to demonstrate further evidence of compliance with the *Information handling standard*. ASX Group has undertaken to tighten physical security of information by trialling a secure encrypted email service that restricts access to nominated employees only.

167 While we have made no recommendations, to remove any perception of a conflict of interest, we consider it appropriate for ASX Group to isolate the distribution of commercially sensitive information to a small group of people on a strict 'need to know' basis. We note that ASX's *Information handling standard* does not contain the procedure set out in paragraph 163 so that conflict sensitive information can be dealt with by the General Manager, Regulatory Assurance. ASX has informed ASIC that its *Information handling standard* has recently been updated to include in the preamble a statement that conflict sensitive information is only provided to people on a strict 'need to know' basis.

168 In this regard, we do not think it is appropriate that ASX Business Development staff should be the first point of contact for TAS enhancements or new service proposals requested by AMOs. ASX has confirmed that Business Development staff have not been involved in discussions regarding AMO initiatives since October 2013.

169 If the TAS service grows significantly in the future, we believe that ASX Group will be put under increasing customer pressure to consider an autonomous service unit for this offering.

Human resources

170 We reviewed the sufficiency of ASX Group's human resources devoted to operating its CS facilities, particularly in light of the extensive developments of commercial offerings in this area.

Project resourcing

- 171 Due to the significant strategic initiatives and projects undertaken by ASX Group, it is possible that staffing levels committed to the ongoing clearing and settlement activities may come under pressure from conflicting project priorities. This risk may materialise if key subject matter experts and management are fully committed to project work and are unavailable to perform business as usual activities.
- 172 Timing delays may affect the effective implementation of a service—this occurred during Phase 1 of the CME SPAN project. When hard deadlines are mandated, they can also result in rushed or late project deliverables. For example, a mandatory delivery date of 7 December 2012 was announced for Phase 2 of the CME SPAN project, and while this enabled implementation before the Christmas 'change-freeze' period it meant that user documentation was only released the day before implementation and some internal training and procedure documentation was delivered late.
- 173 To address this risk, ASX has reviewed its project release management strategy and is considering a risk-weighted approach to resource and duration estimates. We encourage ASX Group to adopt risk-weighted estimates, such as three-point estimation or similar, on a consistent basis across all projects. This may help smooth the effect of unexpected resource requirements or shortages on a project's delivery date and help prevent effort (and budget) overruns.

Agreed action 7: Project planning

ASX Group has agreed to consider the use of risk-weighted resource and duration estimates for project plans, based on previous organisation and subject matter expert experience, to help improve project resource estimation.

C Market conditions

Key points

A discussion of the market conditions and various market events for the assessment period is contained below. Some key features of the market conditions and events for the 2012–13 financial year, and the second half of 2013, were:

- The S&P/ASX 200 Index increased by 17.3% during 2012–13, these gains were in line with a general rebound in global equity markets during this period. After a weak performance in 2011–12, the Australian share market began to recover during the first half of 2012–13 and the S&P/ASX 200 Index increased by 13.5% over the six months to December 2012. In contrast to these strong gains, the June quarter was noticeably weaker, as the index fell by 3.3% following a 21.3% rise in the S&P/ASX 200 over the first three quarters of 2012–13.
- Volatility levels were broadly stable over the course of 2012–13. However, this stability masks the period between June 2012 and December 2012 where volatility more than halved. From late February 2013 through to the end of the March quarter, volatility began rising. After trending downward throughout most of the June 2013 quarter, volatility levels once again rose sharply between mid-June and mid-July, reaching a peak of 20.3%.

Market performance

- 174 Following a weak performance in 2011–12, the Australian share market began to recover during the first half of 2012–13: see Figure 1.
- 175 The S&P/ASX 200 Index increased by 13.5% over the six months to December 2012. The improvement in the S&P/ASX 200 was in line with a general rebound in global equity markets during this period, aided by the announcement of a new wave of monetary stimulus measures by the world's largest central banks. This included an expansion of the Bank of England's asset purchase program, the announcement of a third round of quantitative easing by the US Federal Reserve and the announcement of the Outright Monetary Transactions (OMT) program by the European Central Bank.
- 176 The growth in share market prices continued into the March 2013 quarter, with the S&P/ASX 200 Index increasing by 6.8% over the period. In contrast to these strong gains, the June quarter was noticeably weaker as the index fell by 3.3% during the final quarter of 2012–2013. The poor performance during the June quarter likely reflected a mix of factors, including uncertainty regarding the outlook for economic growth in China as well as profit taking by investors following the 21.3% rise in the S&P/ASX 200 over the first three quarters of 2012–13. Despite the

downward move in the index over the last few months of 2012–13, the S&P/ASX 200 still increased by 17.3% over the entire financial year.

177 After declining during the June quarter of 2013, the Australian market rebounded during the first half of 2013–14, with the S&P/ASX 200 Index rising above 5,000 points and improving by 11.4% between July and December 2013.

Figure 1: The S&P/ASX 200: January 2012–December 2013



Source: Bloomberg

Volatility of the market

178 The evolution of risk in the S&P/ASX 200 index is depicted by the 30-day volatility indicator: see Figure 2. The indicator measures the standard deviation of the change in the closing price of the index for the 30 most recent trading days. The measure is then expressed as an annualised percentage. An increase in the volatility measure can be interpreted as an increase in the riskiness of the overall stock market.

179 Australian equity market volatility was broadly stable over the course of 2012–13. However, this masks the period between June and December 2012 where volatility more than halved. By early 2013, volatility levels had subsided to around 6%: see Figure 2. This reflected the optimism sparked by multiple monetary support initiatives in developed economies: see paragraph 175.

180 From late February 2013 through to the end of the March quarter, volatility began rising from its low levels as concerns heightened that the US Federal

Reserve would begin tapering its quantitative easing program earlier than expected. After trending downward throughout most of the June 2013 quarter volatility levels once again rose sharply between mid-June and mid-July reaching a peak of 20.3%. Along with tapering concerns the increase in volatility was likely driven by a number of factors, including the leadership spill in the Australian Labour Party and weak economic data emanating from China. Since the end of 2012–13, volatility levels have declined noticeably, falling back to 11.7% by the end of December 2013.

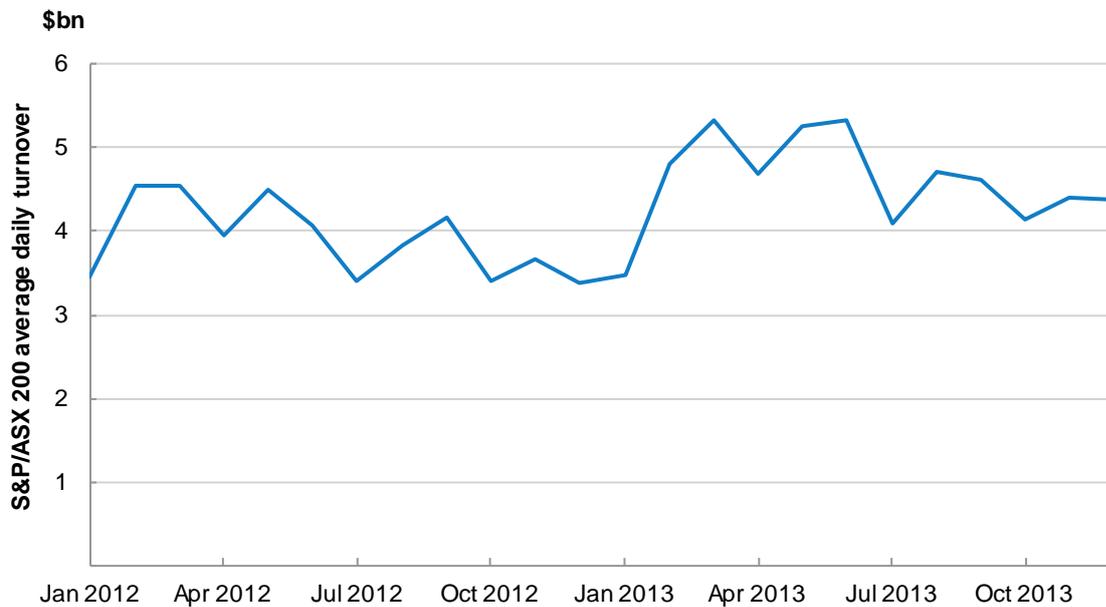
Figure 2: S&P/ASX 200 30-day volatility: January 2012–December 2013



Source: Bloomberg

Market activity

- 181 Daily turnover in S&P/ASX 200 companies averaged \$4.2 billion during 2012–13, down from an average of \$4.5 billion in 2011–12: see Figure 3. The ASX accounted for 90% of this \$4.2 billion, rival exchange Chi-X accounted for the remaining 10% of total value traded.
- 182 Trading activity in the companies forming the S&P/ASX 200 was substantially different between the first six months and the last six months of 2012–13. Daily average turnover of \$3.6 billion over the September 2012 and December 2012 quarters increased to \$4.8 billion over the six months to June 2013.
- 183 Over the last six months of the 2013 calendar year, average daily turnover in S&P/ASX 200 companies moderated somewhat to \$4.4 billion.

Figure 3: Average daily turnover across the S&P/ASX 200: January 2012–December 2013

Source: IRESS

- 184 The total number of trades in companies comprising the S&P/ASX 200 rose to an average of 689,830 per day over 2012–13, compared with 590,047 per day over 2011–12: see Figure 4.
- 185 Similarly to turnover, the daily average number of trades increased over the second half of 2012–13. Daily executed trades averaged 534,180 over the six months to December 2012, and 853,072 over the six months to June 2013, representing an increase of 59.7%. This surge in daily trade counts is unmatched by the increase in total daily turnover over the same period, resulting in a downward trend in average trade size for S&P/ASX 200 companies since December 2012.
- 186 Average daily trade counts have dropped during the beginning of the 2013–14 financial year to just below 800,000 in December 2013.

Figure 4: Average daily number of trades across the S&P/ASX 200: January 2012–December 2013

Source: IRESS

D Agreed actions from previous assessment

Key points

In May 2013, we published our most recent assessment report of ASX Group, which included seven agreed actions. ASX Group has taken steps to comply with these—however, a number of them remain in progress.

- 187 In May 2013, we published our most recent assessment report of the ASX Group, which included seven agreed actions: see REP 345.
- 188 Table 1 lists ASX Group's progress for each agreed action arising from our previous assessment. ASX Group has completed all of the agreed actions from REP 345.

Table 1: Agreed actions from previous assessment of ASX Group

Agreed actions	Status
<p>Agreed action 1: Communication following a system outage</p> <p>ASX Group agrees to review its communication procedures, including the timing of future communications about system issues to market participants and other market users, with a view to providing the information in an appropriate timely manner.</p>	<p>ASX Group created a service recovery function and relevant staff have been trained in incident management. A number of changes to ASX Group's issues management documentation and reporting and incident management procedures have been suggested by ASIC and discussed with ASX Group in recent months. These changes include modification to the after-hours notification procedure and other minor procedural changes.</p>
<p>Agreed action 2: ASX Listing Rule 3.1B processes</p> <p>The recent review of ASX Guidance Note 8 <i>Continuous Disclosure: Listing Rules 3.1 – 3.1b</i> (GN 8) provides an opportune time for ASX Group to consider its processes. ASX Group has agreed to continue to meet with ASIC to explore further improvements to these processes.</p>	<p>In August 2013, ASX Group met with ASIC to discuss improvements to its false market processes. This led to ASX Group enhancing its procedures to more clearly reflect its current practice, which requires immediate action by a Listings Adviser where there is a concern that there is, or is likely to be, a false market in an entity's securities.</p>
<p>Agreed action 3: Long-term suspended entity reviews</p> <p>ASX Group agrees to publish its processes for reviewing long-term suspended entities on its website. This will provide greater transparency to the market about its processes. ASX Group is also developing a proposal to impose a condition on long-term suspended entities requiring them to disclose if they have been the subject of review under ASX Group's long-term suspended entity policy and the result of the review.</p>	<p>On 28 November 2013, ASX issued new ASX Guidance Note 33 <i>Removal of entities from the official list</i> (GN 33). GN33 deals with when and how ASX may de-list an entity, either at the request of the listed entity or at the instigation of ASX. Section 3.4 of GN 33 gives effect to a change in policy under which ASX will automatically de-list long-term suspended entities if their securities have been suspended from trading for a continuous period of three years. GN33 became effective on 1 January 2014.</p> <p>The release of GN 33 follows a consultation paper seeking feedback on the proposal in September 2013. As a consequence of the new policy, ASX Group's annual review of long-term suspended entities will no longer occur because a continually suspended entity has no more than three years to be reinstated to trade, otherwise it is removed from the official list.</p>

Agreed actions	Status
<p>Agreed action 4: Prospectus review procedures</p> <p>ASX Group agrees to formulate more extensive procedures to:</p> <ul style="list-style-type: none"> • guide Listings Advisers' prospectus reviews once the prospectus is received by ASX Group. In particular, these procedures will explain what to look for in different sections of the prospectus and confirm that the Listings Adviser should review the whole prospectus. Reviewing the whole prospectus enables the Listings Adviser to assess whether the entity's structure and operations are appropriate for a listed entity (ASX Listing Rule 1.1, Condition 1). Understanding the entity's business is also important for ASX Group's ongoing supervision of the entity (see also agreed action 6); and • advocate close communication between ASX Group and ASIC on prospectuses in relation to any areas of concern. 	<p>ASX Group has prepared a new prospectus review policy and accompanying checklists which are to be completed by Listing Advisers and companies. ASX Group has also drafted some proposed guidance on compliance with ASX Listing Rule 1.1 in ASX Guidance Note 1 <i>Applying for Admission</i> (GN 1).</p> <p>The procedures also encourage ASX Listing Advisers to raise concerns with ASIC (rather than restricting such communication to 'material' concerns).</p>
<p>Agreed action 5: Prospectus review record keeping</p> <p>ASX Group agrees to update its procedures to require more detailed record keeping relating to its review of prospectuses. This includes Listings Advisers and ASX Legal accurately recording the extent of the review and any significant disclosure issues raised with the entity.</p>	<p>ASX Group's new prospectus review procedures require Listing Advisers to ensure that company files include file notes of all discussions with the applicant or its advisers regarding the prospectus. We consider compliance with this new procedure an important priority.</p>
<p>Agreed action 6: Prospectus review focus areas</p> <p>ASX Group agrees to take a broader approach to reviewing the substantive information in prospectuses, so that it can adequately form a view about whether the entity has a structure and operations that are appropriate for listing.</p> <p>While recognising that responsibility for preparation of a prospectus rests firmly with an entity's directors, ASX Group also agrees to review the quality of the disclosures in a prospectus (rather than just compliance with the listing rules) and raise any concerns it may identify in that regard with ASIC. These concerns include whether the prospectus is sufficiently comprehensible, and whether it adequately details the nature of the issuer's business and associated risks. These issues should be reflected in ASX Group's procedures and documented during the Listing Advisers' review of the prospectus.</p>	<p>A number of Listing Advisers have contacted ASIC with material concerns regarding substantive information in prospectuses. ASX's cooperation on these occasions helped ASIC to take more effective regulatory action.</p> <p>ASX Group's new procedures set out steps that Listings Advisers should take when undertaking a review of substantive information and the quality of information.</p>
<p>Agreed action 7: Prospectus review timing</p> <p>ASX Group agrees to update its procedures to ensure that Listings Advisers commence reviewing prospectuses early in the offer period (as soon as possible after lodgement) so that deficiencies can be remedied before the offer is closed.</p>	<p>ASX Group's new prospectus review procedures encourage Listing Advisers to review prospectuses during the exposure period and discuss any significant issues with ASIC immediately. We consider compliance with the new procedure an important priority.</p>

Key terms

Term	Meaning in this document
AMA	ASX Market Announcements office
AMO	Approved market operator
ASIC	Australian Securities and Investments Commission
assessment period	1 July 2012 to 30 June 2013
ASX	ASX Limited or the exchange market operated by ASX Limited
ASX 24	The exchange market operated by Australian Securities Exchange
ASX Clear	ASX Clear Pty Limited (formerly known as Australian Clearing House Pty Limited)
ASX Clear (Futures)	ASX Clear (Futures) Pty Limited (formerly known as SFE Clearing Corporation Pty Limited)
ASX Compliance	ASX Compliance Pty Limited (formerly known as ASX Markets Supervision Pty Limited)
ASX Group	ASX, Australian Securities Exchange, ASX Clear, ASX Clear (Futures), ASX Settlement and Austraclear
ASX Settlement	ASX Settlement Pty Limited (formerly known as ASX Settlement and Transfer Corporation Pty Limited)
ASX Trade	ASX's equities trading platform
ASX Trade 24	ASX 24's equities trading platform
Austraclear	Austraclear Limited
Australian market licence	Australian market licence under s795B of the Corporations Act that authorises a person to operate a financial market
Australian Securities Exchange	Australian Securities Exchange Limited (formerly known as Sydney Futures Exchange Limited) and the operator of the ASX 24 market
cash market margining	A 'principal to principal' margin between a clearing house and the a participant to ensure that, in the event of a default, the clearing house can close out the defaulting clearing participant's net novated settlement obligations with minimal impact to the broader market
CCP	Central counterparty
CEO	ASX Group's Managing Director and Chief Executive Officer

Term	Meaning in this document
Ch 7 (for example)	A chapter in the Corporations Act (in this example numbered 7)
clearing and settlement facility licence	An Australian clearing and settlement facility licence under s824B that authorises a person to operate a clearing and settlement facility in Australia
clearing and settlement facility licensee	A person who holds a clearing and settlement facility licence Note: This is a definition contained in s761A of the Corporations Act.
CME SPAN	Chicago Mercantile Exchange Standard Portfolio Analysis of Risk
Code of Practice	ASX's <i>Code of practice for clearing and settlement of cash equities in Australia</i>
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of that Act
CPSS	Committee on Payment and Settlement Systems
CPSS–IOSCO Disclosure Framework and Assessment Methodology	CPSS and Technical Committee of IOSCO's <i>Principles for financial market infrastructures: Disclosure framework and assessment methodology</i>
CPSS–IOSCO Principles	CPSS–IOSCO <i>Principles for financial market infrastructures</i>
CS facility	Clearing and settlement facility
CS facility licence	Clearing and settlement facility licence
CS facility licensee	Clearing and settlement facility licensee
DBOR	Daily Beneficial Ownership Reports
GN 1	An ASX Guidance Note (in this example numbered 1)
IOSCO	International Organization of Securities Commissions
IOSCO's <i>Objectives and principles of securities regulation</i>	The objectives and principles of securities regulation, originally adopted by IOSCO in September 1998, as amended from time to time
MAP	ASX Group's market announcements platform
market licensee	Holder of an Australian market licence
NZX	NZX Limited or the exchange market operated by NZX Limited
OTC	Over the counter

Term	Meaning in this document
OTC Clearing Service	OTC Interest Rate Derivatives Clearing Service
RBA	Reserve Bank of Australia
SSF	Securities settlement facility
s794C (for example)	A section of the Corporations Act (in this example, numbered 794C), unless otherwise specified
TAS	ASX Group's Trade Acceptance Service