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Clive Triance  
Group Executive, Securities and Payments  
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Dear Clive

## Consultation on Cash Equities Clearing, Settlement and Issuer Services Pricing Policy

The Stockbrokers and Investment Advisers Association (SIAA) is the professional body for the stockbroking and investment advice industry. Our members are Market Participants and Advisory firms that provide securities and investment advice, execution services and equity capital-raising for Australian investors, both retail and wholesale, and for businesses. Practitioner Members are suitably qualified professionals who are employed in the securities and derivatives industry. The history of the stockbroking profession in Australia can be found [here](#).

SIAA members include clearing and settlement participants as well as software providers and CHES users developing in-house systems. SIAA is a member of the ASX Business Committee and attends the meetings of the ASX Technical Committee as an observer. SIAA is also a member of various CHES replacement working groups.

We welcome the opportunity to provide feedback on the Consultation Paper on Cash Equities Clearing, Settlement and Issuer Services Pricing Policy. We have provided the feedback of multiple members in aggregate. Our comments only relate to pricing for clearing and settlement services.

### General feedback

Our members have serious concerns about key elements of the proposed pricing policy and encourage ASX to reconsider the pricing model in light of the issues raised in this letter.

Accordingly, we have not provided a specific response to each of the 11 questions in the Consultation Paper as we consider that changes need to be made to the model design.

## Cost recovery model

Our members' key concern is the proposed policy will be a cost recovery model.

Currently, the pricing model for clearing and settlement services allows for rebates and a revenue sharing arrangement. Under the current profit model, ASX is incentivised to control costs to grow profit. The revenue sharing arrangement also provides incentive for the ASX and Participants to grow the market. Under the proposed model, these incentives are removed.

We note that the proposal is designed to enable actual revenue to be calibrated against costs that have actually been incurred on an ex-post basis. ASX has stated that this approach will allow for greater price stability and predictability while ensuring that ASX recovers no more than its efficient costs, including a reasonable return on investment.

The proposed pricing model is essentially a 'cost plus' model of price recovery that shares the same characteristics as the ASIC Industry Funding Model.

The ASIC Industry Funding Model is a case study of how a cost recovery model operates. SIAA's members are subject to levies under the ASIC Industry Funding Model and are well aware of its flaws. SIAA has had a consistent approach to the ASIC industry funding model since it was introduced and has long advocated for changes to it to reduce the impact of the model's unintended consequences upon the industry and consumers. Our members raised concerns from its inception that the adoption of the cost recovery model would result in an unchecked increase in ASIC's funding as the model includes no incentive for ASIC to reduce its costs.

Unfortunately, the outcome SIAA warned about regarding the impact of the ASIC Industry Funding model has come to pass. The model has resulted in leviable entities being subject to higher ASIC levies each year. In fact, the levy imposed on the financial advice sub-sector became so unsustainable that the government was forced to freeze the levy for two years because the levy estimated for the 2020/21 year was a staggering 246% increase over the 2018/19 estimate. Notwithstanding, a Treasury review, the ASIC Industry Funding Model remains unchanged and each year our members are required to pay more ASIC levies as a result.

Our members are therefore understandably concerned that ASX is proposing to adopt a cost recovery model for clearing and settlement pricing. Under the proposed model there is no incentive for ASX to control its costs. **SIAA recommends** that ASX reviews the model to include a cost incentive feature.

It is unclear to our members what change will be made to current pricing as a result of this new model. Will our members be required to pay more or less for the clearing and settlement services they currently receive? **We strongly recommend** that ASX provide our members with a preliminary view of what prices would be generated by the model and greater detail on how the model would work so that our members have a better view of what prices they could expect to pay if this new policy is adopted.

## Capital allocation

A key element of the model is the capital allocated to clearing and settlement. There is no transparency around how much that capital will be. While we note that the proposed policy will not recover previous write-offs related to the previous iteration of the CHES replacement project, nor

fund or recover any previous or future payments under the CHES Replacement Partnership Program, it will presumably recover the costs of new CHES. This is a major technical rebuild project that will take up until 2029 to implement and will presumably be the largest capital item. Our members will essentially be funding CHES replacement via the pricing model. It would greatly assist our members' understanding of the impact of the model if they knew the total amount of capital that will be allocated to the CHES replacement project. Our members also require details of the Cost Allocation Policy so that they understand exactly what costs are included in the clearing and settlement costs allocated under the policy.

**SIAA recommends** that ASX provide more detail on the capital and the costs that it will be allocating to the clearing and settlement entities under the policy.

### Asset beta

To calculate a reasonable return on capital, ASX has stated it will use a weighted average cost of capital with an asset beta of 1.2 that reflects the risk it faces in providing clearing and settlement services.

We query whether an asset beta of 1.2 accurately reflects the risk that ASX faces in providing these services. We consider an asset beta of 1.2 to be quite high when the asset beta for ASX's overall activities is 0.85. While we understand that clearing and settlement revenues are directly linked to the value of market trading, the same can also be said for other aspects of ASX's business. What sets clearing and settlement services apart from the rest of ASX's business is that they are operated by ASX as a monopoly. It is difficult to see how a competitor to ASX could emerge over the short term, as interoperability of the CHES system will only come into full effect on the implementation of CHES replacement Release 2, which is currently scheduled to take place in 2029.

**We therefore recommend** that ASX reconsider the asset beta used in the model for the clearing and settlement services.

### International benchmarking

SIAA supports transparent, fair, reasonable and more competitive pricing being offered for the clearing and settlement services currently provided and considers that to enable a competitive outcome it is vital that there is regular and transparent review of the pricing of the clearing and settlement services against comparable markets overseas.

ASIC has proposed introducing a clearing and settlement rule that would require ASX to undertake an independent review of the pricing of their clearing and settlement services against the price of similar services in other comparable international markets within a year after the proposed rules are made, and thereafter at least every five years, and to publish the results of the review.

SIAA supports mandating the international benchmarking process and has recommended that ASX conducts the international comparison at least once every three years or when a change is made to the pricing model to reflect the pace and rate of development and change in markets.

As ASX is proposing a change to the pricing model we **strongly recommend** that ASX conduct the international benchmark process **before** it implements any new pricing policy. Importantly, the results of the process must feed back into ASX's pricing policy. Before ASX undertakes the

international benchmark, we would like to understand the clearing and settlement service providers that ASX is including in its price comparison and the reasons for their selection.

### **Implementation date**

As our recommendation is that ASX completely reconsider the pricing proposal before implementing it, we consider that an implementation date of 1 January 2025 is unrealistic. We recommend that ASX reconsider the implementation date and defer it to a later time.

### **Conclusion**

If you require additional information or wish to discuss this submission in greater detail please do not hesitate to contact SIAA's policy manager, Michelle Huckel, whose contact details can be found in the covering email.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Fox', with a stylized flourish above the 'x'.

Judith Fox  
Chief Executive Officer