

Trade Acceptance Service (TAS)

Market Consultation Paper

(Ver 1.0)



Executive Summary

As a Tier One Licenced Market Operator, NSX has an obligation to run a fair, orderly and transparent market. NSX strives for continuous improvement to streamline processes for its participants.

A key area of efficiency occurs from consistent market practice which allows participants and stakeholders to operate and manage their processes and risks in an optimal manner.

The launch of Chi-X Australia in 2011 occurred following the creation of the ASX Trade Acceptance Service (TAS). TAS allows trades executed on the trading platforms of non-ASX affiliated Approved Market Operators (AMOs) to be cleared and settled by ASX Clear and ASX Settlement on the same basis as trades executed on ASX's cash equity market.

In contrast, NSX currently uses the CHES Settlement Facilitation Service. This is an antiquated process which requires the buying and selling participants to manually send settlement instruction messages which must match in CHES in order to settle on a T+2 basis. Currently NSX trades are not novated or cleared by ASX Clear like ASX and Chi-X trades.

NSX has applied for, and has been granted, access to TAS. NSX's adoption of TAS will harmonise post-trade market practice across ASX, Chi-X and NSX. Achieving equivalence, in clearing and settlement is a key priority for NSX and an integral part of NSX's transformation agenda.

The draft NSX Business Rule changes to facilitate the implementation of TAS have been approved by ASX Clear and ASX Settlement and form part of this consultation paper. Following the conclusion of this consultation process, NSX will lodge the Rules with ASIC for non-disallowance. Subject to regulatory clearance, NSX intends to implement TAS in late October/November 2019. This move to a cleared market will be a mandatory change for NSX Participants.

NSX Participants and their technology providers are encouraged to read this document and provide any feedback on the draft Rule changes and draft FIX post-trade specification in particular, to NSX by 9 August 2019.

Enquiries and Submission of Feedback:

Enquiries and submissions on the consultation paper should be sent by 9 August 2019 to:

Chan Arambewela
TAS Project Leader
National Stock Exchange of Australia
Level 3, 1 Bligh Street
Sydney NSW 2000

email: consultation@nsx.com.au

Phone: +61 2 8378 6400



Current Post-Trade Model

As a result of Chi-X Australia entry in 2011, TAS was created by the ASX Group to enable an orderly and consistent post-trade processing cycle to occur for trades not executed through ASX. TAS allows trades executed on the trading platforms of non-ASX affiliated Approved Market Operators (AMOs) to be cleared and settled by ASX Clear and ASX Settlement through CHESS on the same basis as trades executed on ASX's cash equity market.

NSX has securities listed that are classified as CHESS-eligible financial products under Division 4 of the Corporations Act. Therefore, these NSX securities are already registered in CHESS alongside ASX securities. However, unlike ASX and Chi-X trades, NSX trades are not cleared by ASX Clear. As such, NSX trades are not currently submitted to ASX Clear for central counterparty clearing.

NSX currently uses the Settlement Facilitation Service, provided by ASX Settlement Pty Ltd through CHESS, to have its trades settled. Under this arrangement, settlement occurs bilaterally with settlement counterparties manually sending CHESS Dual entry settlement notification (CHESS 101) messages which must match for them to settle T+2 in the CHESS settlement batch. This antiquated practice has inherent risks and costs from the lack of clearing and straight-through-processing that trades arising from ASX and Chi-X benefit from.

The diagram below provides an overview of the current post-trade models in place for AMOs.

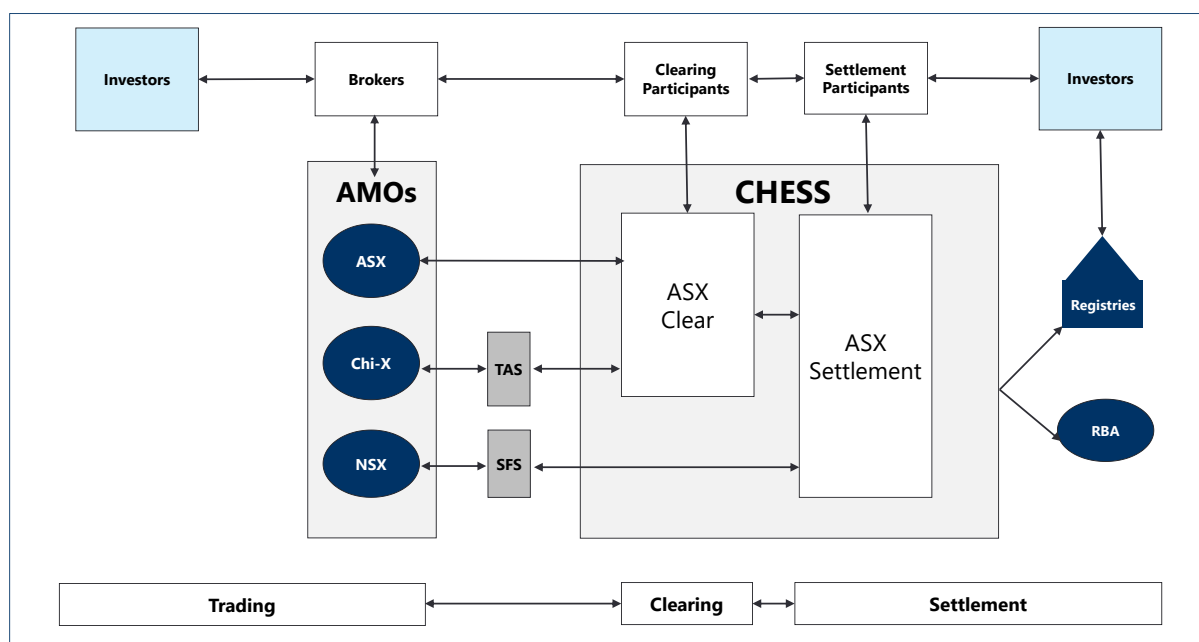


Diagram 1: Current Business Models for AMOs

Source: ASX (amended to group AMOs and incorporate the registries' interaction with investors)



NSX Drivers to Move to TAS

Key drivers for a move to TAS by NSX include:

- NSX participants have stated that the current inconsistent post-trade market practices that apply to NSX compared with ASX and Chi-X act as a barrier to trade NSX securities. The antiquated settlement process creates inefficiencies, higher operational risks and unnecessary costs for NSX participants.
- Prospective online brokers in particular have refused to become NSX participants whilst costly, manual post-trade practices are in place. Their business models are founded on low touch, high volume straight through processing.
- The introduction of centralised clearing through ASX Clear will allow participants to implement consistent risk management controls, compliance practices and processing protocols across ASX, Chi-X and NSX.
- TAS will enable NSX to take a major step forward in market efficiency by streamlining post-trade processes and harmonising market practice with ASX and Chi-X. Achieving equivalence, in clearing and settlement is a key priority for NSX and an integral part of NSX's transformation agenda.

The diagram below demonstrates the current antiquated settlement arrangements in place for NSX. The manual processing touch points are shown in red.

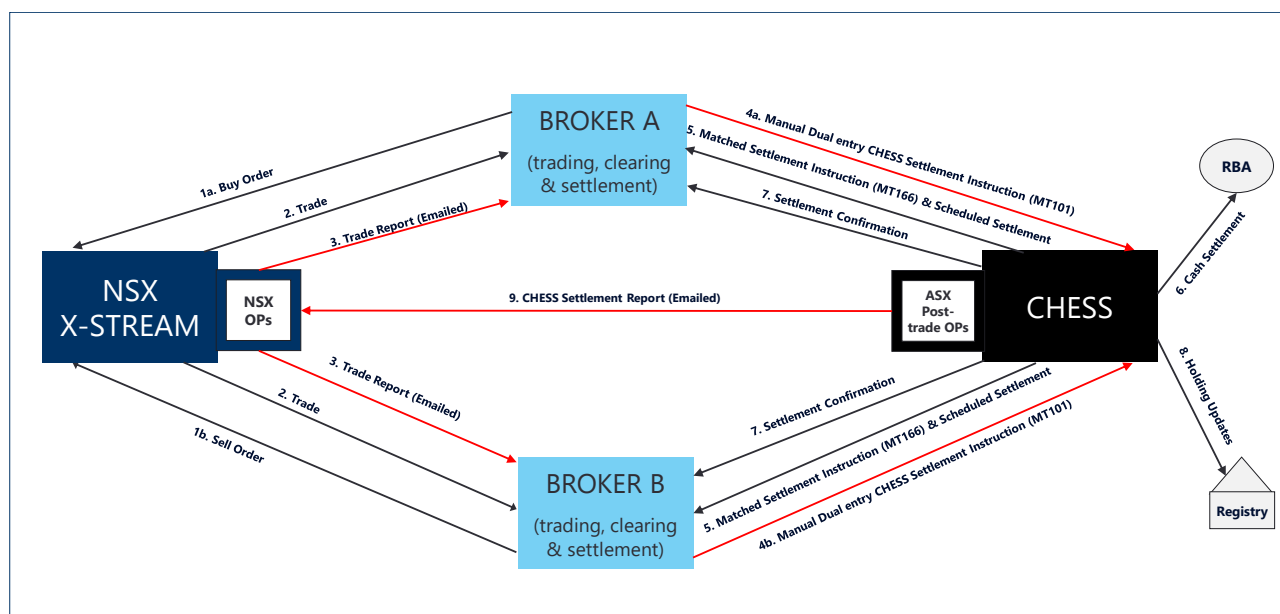


Diagram 2: NSX's current settlement model



NSX Implementation of TAS

NSX has applied for, and has been granted, access to ASX's Trade Acceptance Service (TAS) by ASX Clear. TAS allows trades executed on the trading platforms of non-ASX affiliated AMO's to be cleared and settled by ASX on the same basis as trades executed on ASX's cash equity market. Once these consistent market processes are in place, they will lift standards and deliver lasting benefits to the entire cash equities marketplace.

Subject to regulatory clearance, NSX intends to implement TAS as a mandatory change for its market at the end of October/November this year. NSX will confirm the precise date once the rules have been lodged with ASIC following the conclusion of this consultation process.

Regulatory and Operating Framework

Market transactions executed through NSX will be eligible for registration and novation in accordance with the operating rules of ASX Clear and will be registered and novated with effect from the time of trade execution (that is, immediately after matching of bids and offers on the trading platform). This is the same basis on which trades executed on ASX's and Chi-X's markets are registered and novated by ASX Clear.

Any delay in trade processing through TAS will not affect the level of counterparty risk mitigation provided to market users by ASX Clear as the central counterparty. In the event a technical outage results in an extended delay to trade processing, ASX Clear will provide market updates at the time in the same way it does currently.

ASX Clear will incorporate CHESSE eligible NSX securities into its clearing policy and cash market margining practices and inform the market of any updates.

NSX has drafted updates to its Business Rules and operating procedures to facilitate the implementation of TAS and move to a cleared market for its traded products. These rules have been reviewed and approved by ASX Clear and ASX Settlement and following the conclusion of this consultation process, the Rules will be lodged with ASIC for regulatory clearance.

The draft NSX Business Rules are available separately as [Attachment 1A](#) and [Attachment 1B](#) to TAS Consultation Paper (Ver 1.0)

Participants are encouraged to read the proposed Rule changes and provide any feedback by email as described in the 'Consultation feedback request' section on page 10.



The diagram below provides an overview of the new harmonised arrangements for market operators that will apply.

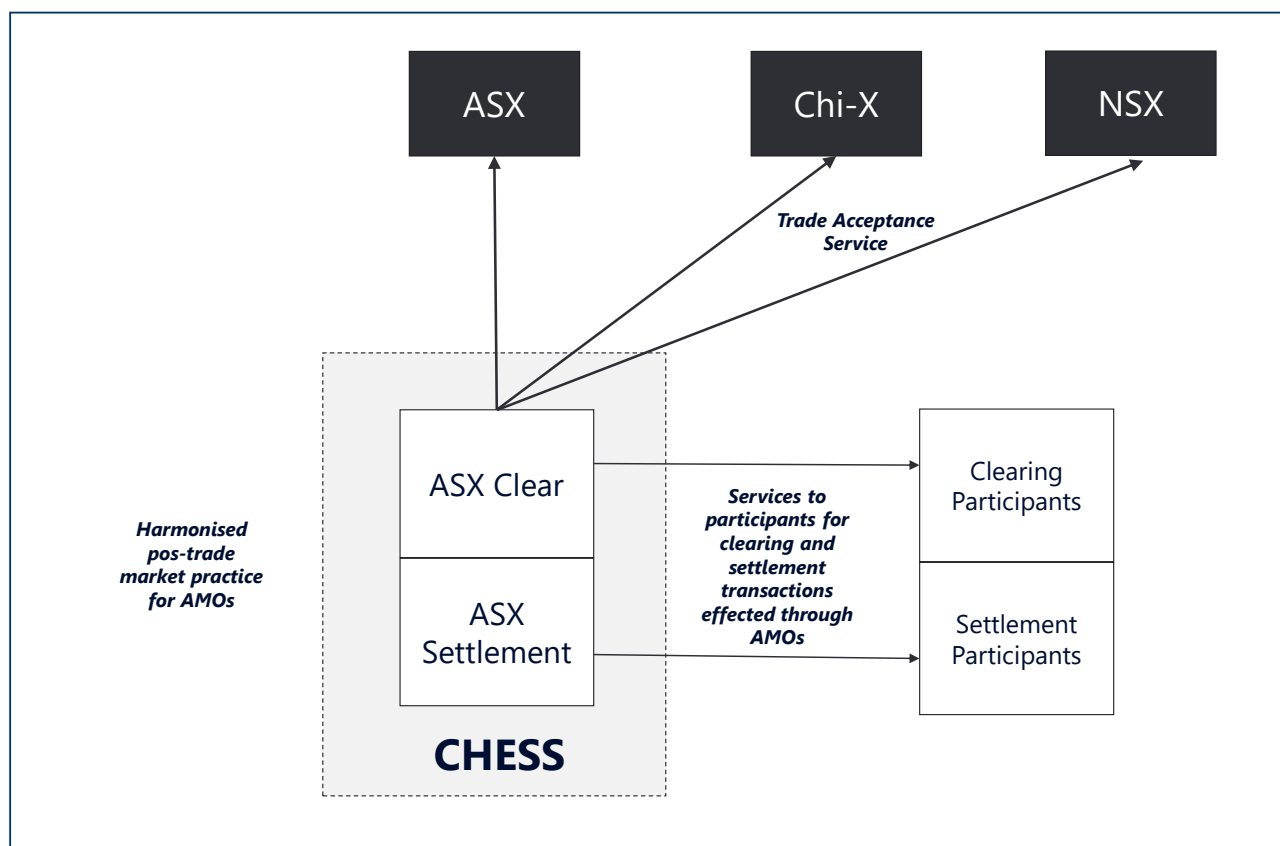


Diagram 3: Overview of new harmonised post-trade market practice for AMOs

Source: ASX (with amended description and grouping of TAS AMOs)

New Post-trade TAS Process for NSX

As part of the implementation, NSX will be expanding its FIX based technology infrastructure to deliver trade information to the market. NSX will also be installing a specific AMO gateway to communicate with ASX Clear through CHES messages to send trading and price information.

The diagram over the page demonstrates the new process flow with a description that follows. The STP steps which replaces the manual processing points are shown in green arrows.

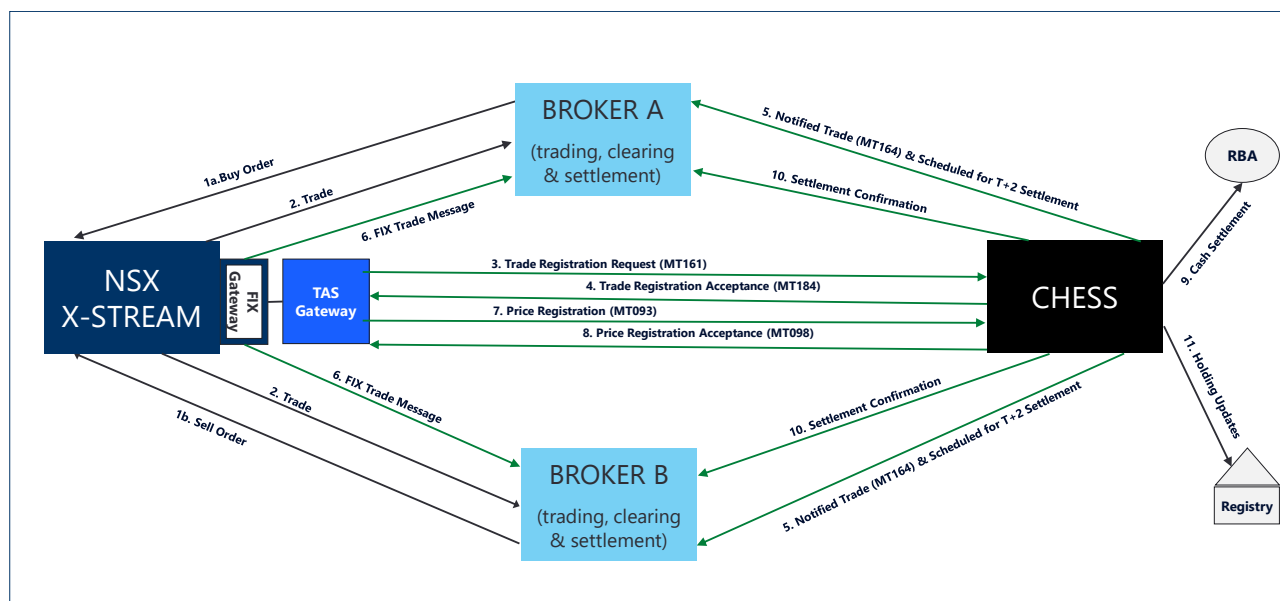


Diagram 4: New STP Post-trade process flow

1. Broker A and Broker B submit buying and selling orders onto NSX's X-Stream trading platform (also referred to as NSX Electronic Trading System: NETS).
2. The trade occurs and is confirmed to Broker A and Broker B.
3. NSX sends a CHES Trade Registration Request message (MT161) to ASX Clear.
4. ASX Clear sends a CHES Trade Registration Acceptance message (MT184) to NSX confirming acceptance of the trade.
5. ASX Clear sends a CHES Notified Trade message (164) to the buying and selling clearing participant confirming the registration of the trade and schedules it for T+2 settlement in CHES. The diagram shows an example where both Broker A and Broker B are also self-clearing and settlement participants.

Where a third-party clearing and settlement participant is used by the trading broker, this message will be sent by CHES to the relevant participant acting for the broker.

6. NSX will send Broker A and Broker B a FIX message through its FIX Gateway. This message will contain the unique Transaction ID from the CHES (MT164) message sent in the previous step (5) to provide a cross reference to reconcile the trade scheduled in CHES for settlement.

Where a third-party clearing and settlement participant is used by the trading broker, the FIX message will be sent to the relevant participant acting for the broker.

7. NSX will send CHES Price Registration (MT093) messages to ASX Clear to manage its cash market margining.
8. ASX Clear will send CHES Price Registration Acceptance (MT098) messages back to NSX.
9. ASX Settlement will process the CHES settlement batch on T+2 and send and receive payment messages with participants' banks and the RBA as part of the normal CHES settlement process.
10. ASX Settlement will also send CHES messages to the broker as part of the normal CHES settlement process.

Where a third-party clearing and settlement participant is used by the trading broker, the CHES message will be sent to the relevant participant acting for the broker.



TAS will be implemented as a mandatory release for the NSX market. Hence once TAS is implemented, all trades in NSX CHESSE eligible securities will follow the new trade processing cycle described above.

NSX participants must make the necessary changes outlined below to implement TAS.

Technology and System Implications

As described above, the key change to the processing cycle of NSX trades from the adoption of TAS will harmonise the post-trade market practices across ASX, Chi-X and NSX. As such, the changes impacting NSX participants are not new but rather an upgrade to follow the process flows that are already in place through CHESSE. There are no new CHESSE fields or messages. The eligible NSX securities are already in CHESSE and any new securities will follow the current processes in place to have them registered in CHESSE. However, changes are required to NSX participants' operating practices and systems to harmonise the post-trade market practices.

The two main technology changes relate to connectivity to NSX and the integration of the new NSX post-trade FIX feed. In both instances, NSX have aimed to reduce complexity and minimise the impact on participants and their systems.

Connectivity

NSX will create a VPN as a direct pathway for participants to communicate with NSX to connect to its FIX gateway to receive the FIX post-trade messages.

NSX will engage with participants separately to provide further details on the VPN connectivity pathway including testing requirements.

FIX Post-trade Messages

The introduction of the FIX post-trade feed will replace the current email notification of trades. Participants' back-office systems will need to be able to receive the new NSX post-trade FIX messages. To ease the integration of this FIX feed for participants, NSX proposes to use FIX Version 4.2. This is the same version used by Chi-X for its post-trade FIX messages.

The NSX post-trade FIX 4.2 message specification is available separately as [Attachment 2](#) to TAS Consultation Paper (Ver 1.0).

Participants and their back-office providers are encouraged to review the specification and provide any feedback to NSX.



The topology diagram below incorporates the new NSX VPN connectivity and FIX post-trade gateway.

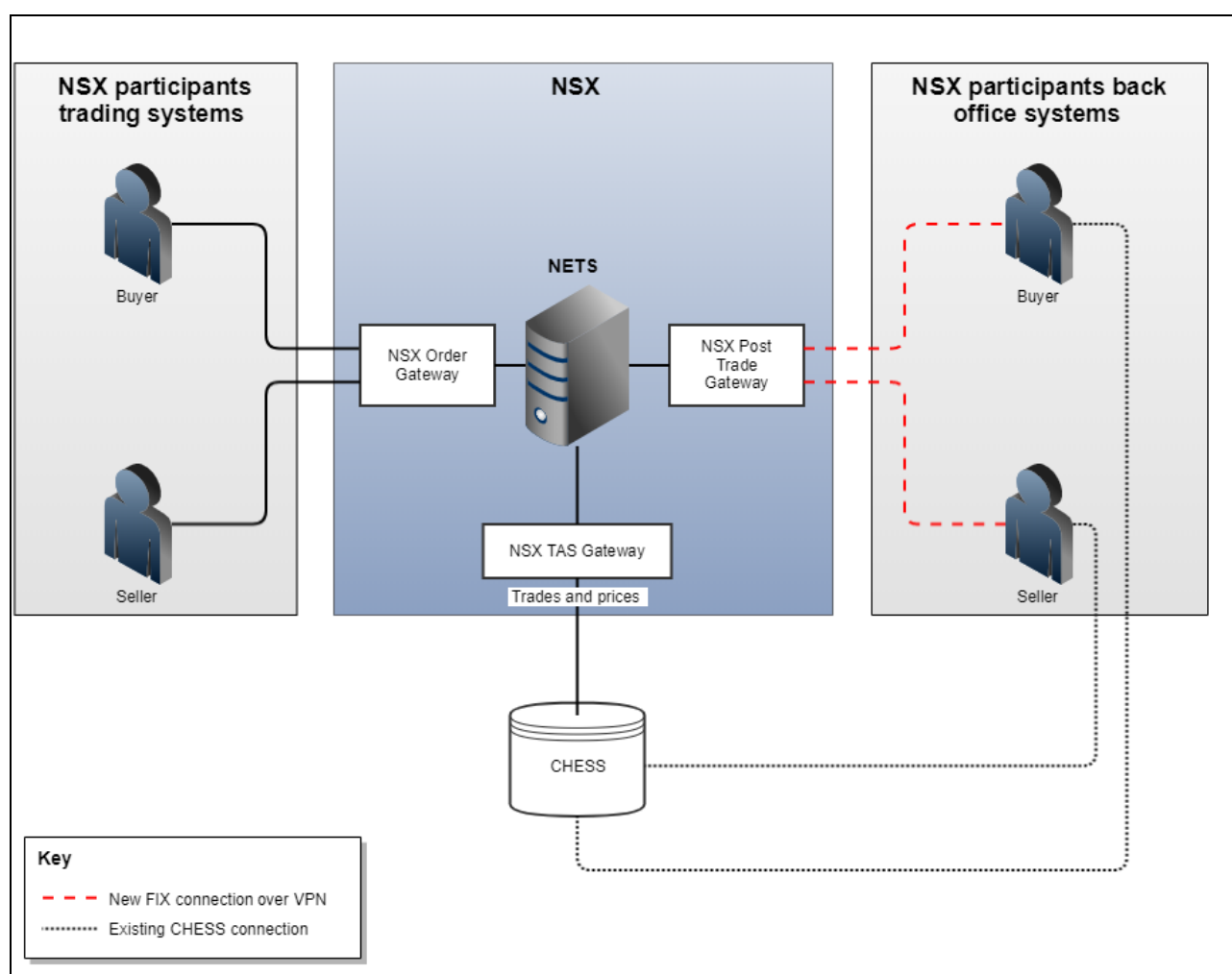


Diagram 5: NSX topology with new VPN and FIX post-trade gateway

Considerations for Participants and Technology Providers

NSX participants are asked to consider the following key points to help guide their evaluation of the implementation of TAS:

- Review the proposed updates to the NSX Business Rules and provide any feedback.
- Make any necessary adjustments for requirements imposed by ASX Clear.
- Review and update any specific compliance criteria that may impede trading NSX securities resulting from the change to a cleared market.
- NSX brokers who are not ASX Clearing Participants (CPs) in their own right, will need to have agreements in place with an ASX CP.
- Make any necessary changes to internal procedures to facilitate the NSX Rule changes and the removal of the manual settlement process.

Participants and technology providers are asked to consider the following key points:

- Connectivity management through the new NSX VPN.
- Integration requirements for the receipt of the new NSX FIX post-trade messages in FIX 4.2.



Consultation Feedback Request

NSX encourages Participants and their technology providers to clarify any areas of concern that arise from NSX's move to TAS as described in this paper.

NSX is seeking feedback particularly on:

- The proposed changes to the NSX Business Rules ([Attachment 1A](#) and [Attachment 1B](#) to TAS Consultation Paper Ver 1.0);
- Connectivity through the new NSX VPN; and
- The NSX FIX 4.2 Post-trade Specification ([Attachment 2](#) to Consultation Paper Ver 1.0)

Enquiries and Submission of Feedback:

Enquiries and submissions on the consultation paper should be sent by 9 August 2019 to:

Chan Arambewela
TAS Project Leader
National Stock Exchange of Australia
Level 3, 1 Bligh Street
Sydney NSW 2000

email: consultation@nsx.com.au

Phone: +61 2 8378 6400

Following the conclusion of the consultation process, NSX will finalise the Business Rules for lodgement with ASIC.

Following the lodgement, NSX will provide a further update to the market with the go-live date, technical milestones relating to the VPN and FIX interface testing and connectivity.