

## 'Circulation' in the Australian Capital Markets

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### Some acronyms and terms from discussion today

ASX	Australian Stock Exchange
RBA	Reserve Bank of Australia
SFE	Sydney Futures Exchange
DvP	Delivery versus Payment. The electronic, near-simultaneous exchange of financial products and the funds to pay for their purchase.
STP	Straight-through processing. More a goal than an actuality, this term refers to the development of electronic flows that eliminate manual handling.
RTGS	Real time gross settlement. Connotes electronic exchange of funds and financial products between two parties on demand, i.e. in 'real time', not via a batched process, and on a gross basis, i.e. not as a netted total that offsets an aggregate of transactions. High-value funds are moved between banks through the RBA's interbank payment system on an RTGS basis. APCA (see below) refers to this process as its 'high value' system.
Trading	Brokers enter orders into the ASX's trading system for either a buy or a sell. Buys are matched with sells on price, in time order. A match means a deal now exists to trade a certain number of units of a financial product at an agreed price.
Clearing	The ASX guarantees settlement between brokers at the point of trade by the interposition of a Central Counterparty that becomes the seller to every buyer and the buyer to every seller. Consequently, the ASX must manage risk associated with this guarantee, i.e. in the event a buying broker (via its sponsoring bank) fails to pay the Central Counterparty at settlement time. In banking terms, clearing represents a gathering and sorting of payments prior to payments settlement.
Settlement	Settlement is the actual exchange of funds for financial products purchased. Settlement of 'cash market' transactions (for our purposes, this includes financial products traded, cleared and settled in ASX systems, and is often understood to be mostly equities) is automatically effected 3 days after a trade is matched. Today's trades become settlement instructions that are scheduled for settlement in 3 days. In banking terms, settlement is the posting to accounts to effect payment.
CHESS	Clearing House Electronic Subregister. In addition to clearing and settlement of trades, CHESS also provides an electronic subregister (a part of the total register) for every financial product listed on ASX that is CHESS-eligible (i.e. the majority of them). The register is a record for a particular financial product issued by a listed company of all shareholders who own units of this financial product.

**References for further information**, with particular citations concerning clearing & settlement in the securities industry. This is by necessity only a partial list.

#### The Reserve Bank of Australia (RBA)

[www.rba.gov.au](http://www.rba.gov.au)

A good deal of information is available via the RBA's website on payments flows operated by the RBA as central banker, by member banks, and on clearing and settlement, in addition to areas of broader interest on monetary policy, etc.

Some useful material available on the RBA's website:

- The EMEAP (Executives' Meeting of East Asia-Pacific Central Banks and Monetary Authorities) 'red book', titled *Payment Systems in EMEAP Economies*, is available in its entirety online at the RBA website, at no cost. In accessible terms, it describes the payment systems (in the broader sense of networks or processes as well as IT systems) for each country in the Asia-Pacific region, including Australia. The section

on Australia describes the RBA's payment system, the bank-level payment component of the clearing & settlement system (CHES) run by the ASX, and that of the SFE for bonds and derivatives settlements.

- *Financial Stability Standard for Central Counterparties and Financial Stability Standard for Securities Settlement Facilities* outline regulatory requirements to which the ASX is subject as a provider of clearing and settlement services.
- *The Future of Clearing and Settlement in Australia: A Discussion Paper* (March 2000). Contains comparison information between systems of SFE, RBA, and ASX.
- References to the Committee on Payment and Settlement Systems (CPSS) of the central banks of the Group of Ten countries. The Group of Ten is made up of eleven industrial countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States) which consult and co-operate on economic, monetary and financial matters. The Ministers of Finance and Central Bank Governors of the Group of Ten usually meet once a year in connection with the autumn meetings of the Interim Committee of the International Monetary Fund. (This explanation of Group of Ten is from the BIS website.)

#### Australian Payments Clearing Association Ltd (APCA)

[www.apca.com.au](http://www.apca.com.au)

This industry association is responsible for coordinating the clearing of payments among providers of payment services in Australia. Their website contains information on all payment flows managed by APCA, including those cleared by mutual file exchange between banks and settled via payments effected by the RBA, and high-value payments executed through RTGS processes, either directly via the RBA's system or via the SWIFT network (see below for SWIFT). This site also contains useful links to related organisations.

#### Group of Thirty

[www.group30.org](http://www.group30.org)

The Group of Thirty, established in 1978, is a private, non-profit, international body that considers and develops recommendations concerning international economic and monetary issues, and issues related to capital markets infrastructure.

e.g. January 2003 report "Global Clearing and Settlement: A Plan of Action"

#### Bank for International Settlements (BIS)

[www.bis.org](http://www.bis.org)

The Bank for International Settlements (BIS) is an international organisation that fosters international monetary and financial cooperation and serves as a bank for central banks. Established on 17 May 1930, the BIS is the world's oldest international financial organisation. (This explanation is from the BIS website.)

#### Society for Worldwide Interbank Financial Telecommunications (SWIFT)

[www.swift.com](http://www.swift.com)

SWIFT provides a global, electronic, proprietary network that operates between banks and other member institutions (such as global funds custodians, the ASX, SFE, Euroclear, and London Clearing House) to support payments and securities transactions in equities, fixed interest securities (e.g. bonds), and foreign exchange.

#### Capco (known in the USA as Capital Markets Company)

[www.capco.com](http://www.capco.com)

A global consultancy catering to the capital markets. This website provides a good deal of discursive material on areas of change within the capital markets. They offer free access to informative e-bulletins and journals on industry issues.