



RESERVE  
BANK

O F N E W Z E A L A N D

Austraclear New Zealand System  
Report to Members

Year ended 30 June 2008

Reserve Bank of New Zealand  
August 2008

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Austraclear New Zealand System

System Operator: Reserve Bank of New Zealand

Custodian Trustee: New Zealand Central Securities Depository Limited

Email: [rtgshelpdesk@rbnz.govt.nz](mailto:rtgshelpdesk@rbnz.govt.nz)  
Telephone: (64) (4) 471 3712  
Fax: (64) (4) 471 3918  
Internet address: <http://www.rbnz.govt.nz/payment/austraclear/>

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## System overview

### About the Austraclear New Zealand System

The Austraclear New Zealand System is the only high-value securities depository in New Zealand. The system is charged with providing an efficient and safe process for the electronic transfer and safekeeping of securities.

The Austraclear New Zealand System has been operating in New Zealand since 1990 and is used principally for transferring fixed interest securities, equity securities and cash between participants on a delivery versus payment basis.

For a transaction to be settled, both parties must enter the relevant details of the transaction and those transaction details must be “matched” by the system. Once a transaction is settled it cannot be revoked.

The system is operated by the Reserve Bank of New Zealand (“Reserve Bank”). The Reserve Bank has a licence to operate the system until 2015 (with a right of renewal) and the Reserve Bank’s role is to ensure the system operates in a secure, resilient, robust and efficient manner.

The Reserve Bank’s Financial Services Group (FSG) is responsible for the administration of the “business” aspects of the system. FSG is headed by Mike Wolyncewicz, the Bank’s Chief Financial Officer and day-to-day business support is provided by the Payments and Settlements Services Team within FSG that is managed by Adrienne Barlow.

FSG reports on the operation of Austraclear to Dr Don Abel, Assistant Governor and Head of Operations.

FSG has a service level agreement in place with the Bank’s Knowledge Services Group (KSG), that provides technology and operations support for the system. Software support and development services are provided by Datacom Systems (Wellington) Limited and telecommunications services are provided by Telecom Corporation of New Zealand Limited.

All securities beneficially owned by members and lodged into the system are registered in the name of New Zealand Central Securities Depository Limited (NZCSD) which is a wholly-owned subsidiary of the Reserve Bank.

NZCSD operates as a bare trustee and has entered into a deed with the Reserve Bank with NZCSD as a custodian trustee for securities beneficially owned by members of the Austraclear System. The Reserve Bank has accepted liability for any debts or liabilities of NZCSD in the event of a justifiable claim by a third party.

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## Management commentary

### Year ended 30 June 2008

Key performance statistics are:	2008	2007
• System availability (%)	99.23	99.99
• Average daily transactions	1,119	1,097
• Revenue (\$000)	4,400	3,572
• Net Profit (\$000)	1,005	834
• Customer satisfaction (%)	97	97

The Bank's primary development objective for the 2007/08 year was to commence live operation of the upgraded ESAS-Austraclear system. The completion of the upgrade on 10 September 2007 coincided with significant changes to the telecommunications network facilities used to access the application. Internet access replaced both the IPNET dial-up access and the telecommunications network used in Australia. The upgrade and telecommunications projects were completed on time, to budget and, despite some challenges as discussed below, we achieved the "close to zero" defect standard agreed with members. A full post implementation review was undertaken with members' input, and the final report was subsequently discussed with the User Advisory Committee and members generally.

With the upgraded application the Bank is well positioned to deliver system enhancements that will significantly improve users' operational efficiency. The two principal developments under way at 30 June 2008 were automation of lodges and uplifts (which requires approval from the Securities Commission) and also development of the new "TRANSACT" screen which will materially improve users' navigation and reduce time required to process transactions. A substantial number of other less-significant system developments are also in train which will incrementally improve the system. This range of development work puts into action our objective of achieving continuous improvement. The User Advisory Committee has been consulted on all major enhancements and is kept informed of the full development schedule.

The Key Performance Indicator for system availability was adversely impacted by system downtime of 5 hours 30 minutes during the first week of operation of the upgraded system. Other outages impacted all members for a total of 1 hour 57 minutes, while various subsets of users experienced difficulties at various times for a total of 9 hours 40 minutes. The majority of system unavailability was due to telecommunications outages totalling 21 hours 30 minutes, which in all cases impacted a small subset of users. All but 3 hours 30 minutes of downtime due to telecommunications issues occurred before the IPNet network was replaced by the new internet connectivity.

While the overall indicator of system availability decreased, end-of-day cut-off for Austraclear was extended as a result of system issues on five occasions, four of which were made in the first week of operation of the upgraded system. This indicates that, although the issues were irritating, they were resolved on a timely basis with relatively limited impact on members.

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All incidents which impact system availability are followed up thoroughly and remedial action is taken to minimise the chance of a re-occurrence. Modifications are being made to improve performance and to minimise disruption to users.

There are now six members using the SWIFT interface to Austraclear (2007: one member). For June 2008, 25 percent of all equity and fixed interest transactions were processed through the SWIFT interface and this will continue to grow. This is a very positive development given the significant efficiency gains and operational risk reduction that members can achieve from using this module.

While the main goals for 2007/8 were achieved, the Bank did reassess some priorities that had been outlined in its plan for that year. In particular, with the focus on the development of the new "TRANSACT" screen, automation of corporate action processing was deferred and we intend to review this initiative in late 2009. Also, a decision has been made to defer application to designate the Austraclear system under Part 5C<sup>1</sup> of the Reserve Bank Act until legislative changes to that statutory regime have been passed into law.

This has been the first year of operation of the User Advisory Committee. The elected representatives on the Committee at 30 June 2008 were:

Name	Organisation	Sector Represented
Scott Sinclair (Chair)	Westpac Banking Corporation	Banking
Sarah Drennan (Deputy Chair)	ABN Amro New Zealand Limited	Broking
Robert Douglas	ANZ National Bank Limited	Banking
Mark Lawrence	ANZ Nominees Limited	Custodian
Patricia Bow	HSBC Nominees Limited	Custodian
Dave Mitchell	Computershare Investor Services Limited	Other
Miles O'Connor	Citibank, N.A.	Australia

The Bank as system operator has found discussions with the User Advisory Committee to be very constructive and the new governance framework has assisted the Bank to lift standards and to improve outcomes for system users. The Bank thanks these members for their time and dedication in advancing the interests of the Austraclear user community.

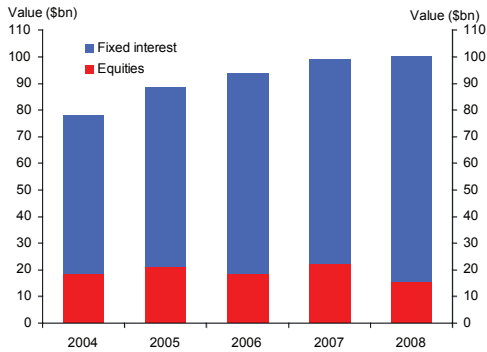
With the Committee's endorsement, the Bank is working with the NZX Limited (NZX) to ensure that the Austraclear system can interface efficiently and cost-effectively with the new clearing and settlement system being developed by NZX.

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<sup>1</sup> Information on designated payment systems is available on the Reserve Bank's web site at: [www.rbnz.govt.nz/finstab/payment/index.html](http://www.rbnz.govt.nz/finstab/payment/index.html)

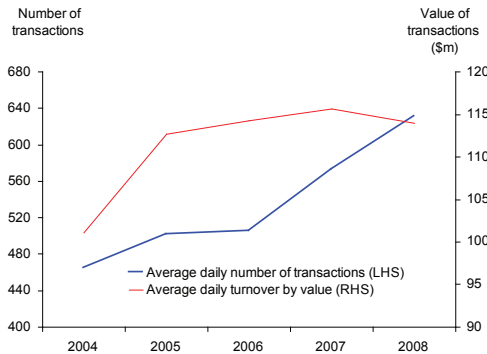
## Key statistics

### Value of securities in the Austraclear New Zealand System as at 30 June



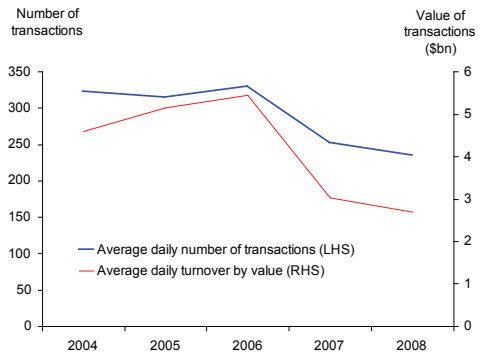
- Value of fixed interest securities has grown significantly over the five-year period.
- The value of equity securities at 30 June 2008 was \$15.6 billion, down from \$22.4 billion at 30 June 2007.
- Total value of assets held in the depository as at 30 June 2008 is \$100.5 billion (2007: \$99.1 billion).

### Transactions – equities



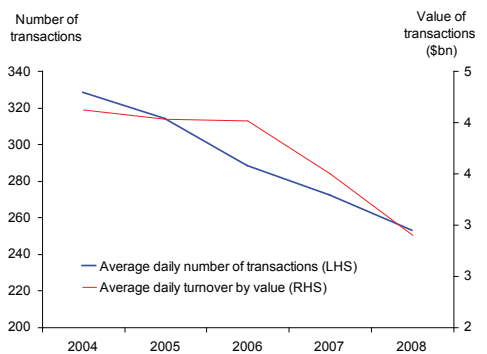
- The average daily volume of equity transactions grew 10 percent for the year, but the value of equity transactions remained almost static at \$114.0 million per day.

### Transactions – fixed interest



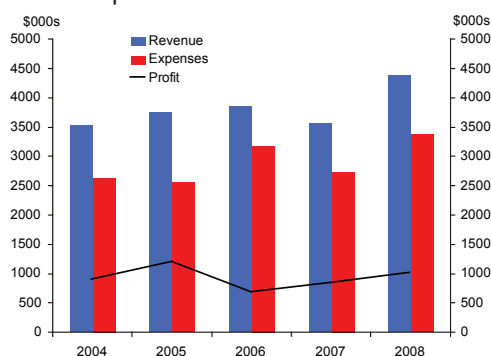
- Average transaction volumes were 235 per day (down from 252) and average value declined from \$3.0 billion per day to \$2.9 billion per day.

### Transactions – cash



- Volume declined from 272 transactions per day in 2007 to 253 transactions per day in 2008.

## Financial performance



- Revenue increased by 23.2 percent in 2008. This was driven by an increase in the average transaction fee of 26 percent to recover the depreciation expense of the upgraded system.
- Costs increased from \$2.7 million in 2007 to \$3.4 million in 2008, primarily due to depreciation on the upgraded system for nine months.
- Net profit was \$1.005m (2007: \$0.834m).

## Member numbers as at 30 June

	2004	2005	2006	2007	2008
Full	63	56	56	56	64
Associate	67	57	47	49	47
Nominated trust	96	87	81	77	96
	<u>226</u>	<u>200</u>	<u>184</u>	<u>182</u>	<u>207</u>

- Overall member numbers increased. Taxation changes for Portfolio Investment Entities (PIEs) saw a number of new investment funds created which became members of the system.

## System outages year ended 30 June (hours: minutes)

	2004	2005	2006	2007	2008
Application					
– all users	0	0	0	0	7:27
Application					
– subset of users	0	0	0	0	9:40
Connectivity	0	18:20	7:42	0:10	21:30

- Application downtime arose primarily as a result of issues encountered when the upgraded system went live in September 2007.
- A number of telecommunications outages arose which impacted a number of, but not all, users.
- While outage time was significantly higher than the previously very low incidence, end-of-day cut-off was extended on five occasions due to these events (four of which were in the first week of operation of the upgraded system).

## Customer satisfaction

	2007	2008
Exceed expectations	21%	25%
Meet expectations	76%	72%
Does not meet expectations	3%	3%
	<u>100%</u>	<u>100%</u>

- The February 2008 customer survey outcomes with high levels of customer satisfaction, were consistent with the results from the February 2007 survey.

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## Risk management

The internal controls of the Austraclear System are audited each quarter by PricewaterhouseCoopers (PwC) who act on behalf of the Reserve Bank's external auditor (the Auditor-General). PwC's quarterly audit opinion is published on the Reserve Bank's website. The quarterly audit report is addressed to the Governor of the Reserve Bank and is reviewed by the Bank's Audit Committee, with external auditors, Reserve Bank Governors and management in attendance.

The Austraclear System is also subject to internal audit by the Reserve Bank's Audit Services division.

Good risk management is at the heart of high value financial operations. In particular, it is vital that three critical elements are prominent in line-management's day-to-day responsibilities:

- reconciliations are performed and reviewed daily
- procedures and controls are adhered to
- quality business continuity plans are in place and regularly tested.

The Reserve Bank has a local business continuity site in the Wellington central business district. This provides a site for alternative location of staff in the event of an emergency impacting the Reserve Bank's main premises in Wellington. While a second computer site is located in Auckland and is used alternately with the Wellington processor for live production, the Bank has decided to establish a small business presence in Auckland. This will provide on-going continuity of business operations, as distinct from system operations, in the event of a major regional catastrophe that renders all the Wellington-based Austraclear business staff unavailable. We expect that the Auckland office will be operational by the end of the fourth quarter of 2009.

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## Financial performance

Total fee revenue for 2007/08 at \$4.4 million was 23.2 percent above the fee revenue of \$3.6 million for 2006/07. This was mainly due to a 26 percent increase in fee tariff which was applied from 1 October 2007. The increased tariff has been put in place to recover the capital cost of \$2.9 million for the recent systems upgrade and will be removed after four years.

Transaction fees from equities continues to be strong. Equity volumes increased by 10 percent to an average of 631 transactions per day (2006/07: 573). Equities transactions generated 57 percent of transaction fee revenue (2006/07: 52 percent) and fixed interest transactions 38 percent (2006/07: 42 percent).

The increase in costs from \$2.7 million to \$3.4 million includes depreciation of the upgraded system from 1 October 2007 of \$0.5 million and costs of \$0.2 million relating to system enhancements. These latter costs are expensed as they do not meet the threshold for capitalisation and depreciation.

A short-form Statement of Financial Performance for the Austraclear New Zealand business is:

	2007/08 \$000	2006/07 \$000
Income	4,400	3,572
Expenses	3,395	2,738
Net profit <sup>2</sup>	1,005	834

The Austraclear New Zealand business is attributed costs by the Reserve Bank. This includes charges for use of the Reserve Bank's resources, such as staff, occupancy, internal audit, governance, accounting and information technology. Indirect operating costs incurred by the Bank are allocated to the Austraclear New Zealand System based on predetermined cost drivers and related activity or usage.

The Austraclear New Zealand business is operated as a division of the Reserve Bank. The above figures are extracted from the Reserve Bank's audited financial statements, but the accounts of this division have not been subject to a separate external audit. Income and expenditure for the Austraclear New Zealand business is calculated in accordance with the accounting policies specified in the Reserve Bank's financial statements.

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<sup>2</sup> No provision for tax has been made on net profit as the Reserve Bank is exempt from liability for income tax. Had the Bank been liable for income tax, tax expense would be \$332,000 (2007: \$275,000) and net profit after tax would have been \$673,000 (2007: \$559,000).

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## Plan for 2008/2009

### Austraclear New Zealand System

#### Plan for the Year Ended 30 June 2009

The major initiatives and performance metrics for the year include:

- Implement straight through processing for most lodges and uplifts.
- Streamline system navigation by implementing the new TRANSACT screen. We will also investigate enhancing the Enquiry and Reporting functions in a similar manner.
- Implement a cost-effective enhancement required for systems interoperability with NZX's proposed new system.
- Apply for designation of the system under the revised part 5C of the Reserve Bank Act once the necessary legislation is passed.
- Commence planning for a small business presence in Auckland to ensure there is sufficient business back-up for system operation in the event of a major regional disaster in Wellington (note this will be in addition to the existing systems back-up site and the existing business back-up site in Wellington).

As part of business as usual we will target to:

- Have the system available for members for at least 99.9 percent of core business hours.
- Achieve a surplus of \$0.4 million on revenue of \$4.6 million. Reduced budgeted surplus partly reflects provision for system enhancements that do not meet the threshold for capitalisation.
- Have four meetings of the Austraclear User Advisory Committee over this period.
- Have the system subject to four external audits.
- Produce a quarterly newsletter with enhanced content.
- Survey members' satisfaction levels and report back to members by May 2009.