

**MINUTES OF THE MEETING OF THE AUSTRACLEAR NEW ZEALAND
SYSTEM USER ADVISORY COMMITTEE HELD BY TELECONFERENCE
5 NOVEMBER 2008 AT 9AM**

Attendees:

Sarah Drennan	ABN Amro (Chair)
Dave Mitchell	Computershare Investor Services Limited (Deputy Chair)
Patti Bow	HSBC Nominees Limited
Robert Douglas	ANZ National Bank Limited
Mark Lawrence	ANZ Nominees Limited
Randy Stack	Westpac Banking Corporation

RBNZ:

Mike Wolyncewicz
Adrienne Barlow
Donna Bosch

Datacom:

Graeme Beasley

APOLOGIES

Miles O'Connor	Citibank
Rebecca Murphy	RBNZ
Tanya Harris	RBNZ
Kevin Jamieson	RBNZ

MINUTES

The minutes of the meeting of 3 September 2008 were accepted.

ELECTION OF CHAIR AND DEPUTY CHAIR

The Schedule to the Austraclear Rules requires that the Chair and Deputy Chair of the User Advisory Committee be elected for a period of twelve months and those elections were due now. The Committee voted Sarah Drennan as Chair and Dave Mitchell Deputy Chair.

REVIEW OF OPERATIONS TO 30 OCTOBER 2008

Mike Wolyncewicz spoke to the report. It had only been two months since the Committee last met. This short period was due to the requirement for the Committee to meet four times per year and the meeting cycle has only just been established.

The first month (September) was again dominated by the investigation to locate the operating system bug. Mike explained that Datacom and the Bank were now awaiting a formal fix from Sun – likely delivery Q1 2009. The system had not had a major “slow down” since July and given the stability it was decided to cease further investigatory work. The Committee are satisfied with this explanation.

Post meeting note: Two 10 minutes interruptions occurred when the system again slowed down and Weblogic was restarted– one on 5 November and another on 7 November. An explanation will be provided to members shortly.

As a result, the Bank and Datacom have resumed focus on development work with ESASENQ screen promoted to production and development of TRANSACT well underway.

Volumes have been very static, if not a little quiet which is typical for this time of year (Northern Hemisphere late summer).

Importantly, the RTGS systems had been stable and performed well during the midst of the financial crisis over the last two months. Payments and settlements had been impacted as client credit exposures were under close scrutiny. Operational incidents had occurred with one member that necessitated one extension of end-of-day for Austraclear and one for ESAS.

No progress had been made on amendments to the Austraclear Rules. Mike Wolyncewicz said amendments would now be published for consultation before Christmas.

Dave Mitchell enquired about the new issues of fixed interest securities that took longer than 60 minutes to process. Adrienne and Mike accepted this performance needed to improve. This would be monitored more closely from week to week.

PROGRESS AGAINST PLAN FOR 2008/09

RBNZ is behind plan and providing no more serious issues such as system “slow downs” manifest themselves, we expect good progress to be made over the next several months. In short:

STP for Lodges and Uplifts

RBNZ have had a follow up meeting with Securities Commission since the submissions closed on the Bank’s proposal. Submissions were generally supportive.

Mike Wolyncewicz stated that the Bank is positive as the proposed system is not unlike the existing FASTER system. The Bank will work through the proposal with the Commission and keep members apprised of progress.

TRANSACT

Development is underway. We expect release to the industry for familiarity testing late Q1 2009. In response to questions the Bank confirmed that training / introductory workshops would be held in the main centres at that time. The Bank would ensure high quality documentation would accompany the release and also make staff available for client-specific training as resources allowed.

Dave Mitchell asked if the Bank had considered making on-line training or help material available. Adrienne indicated some thought had been given to this but the Bank was applying its efforts to other areas at present. The Bank would take note of the request and ensure that, while it would not be high priority, visibility of it would not be lost.

NZX-Interoperability

(See separate agenda item below)

Designation of the system

Legislation has been introduced, but further work was dependent on that legislation passing through Parliament.

RBNZ Business Presence in Auckland

Planning is underway. RBNZ is still targeting late 2009.

REVIEW OF DEVELOPMENT WORK

The Committee noted a number of background changes had been made to the system which did not significantly impact user functionality except for ESAS changes (MT 950 referencing and ESASENQ).

TRANSACT development is proceeding well now – expected release for IFT late Q1 2009.

An email would be sent shortly setting out the changes required to install a version of the application that can run using Java 1.6. For some members, this requires a re-load of the application. Members' IT staff need to be involved.

Patti asked about work on the Bank's schedule that was marked "withdrawn". Donna confirmed that the proposed changes Host-to-Host Lite would not proceed because of developments to the Austraclear-SWIFT Interface, but H2HL would still be supported going forward.

The Bank agreed to ***follow-up*** and advise why the "simplify member logon requirements" initiative was withdrawn. The Bank would also advise why one initiative was reported as amalgamated with another one.

INDUSTRY DEVELOPMENTS

There was extensive discussion concerning NZX developments and the interface between the Bank and NZX. Robbie asked if the Bank and NZX had been collaborating effectively.

Mike confirmed collaboration was occurring, but within the framework of two competing systems working in a single market. The focus was on ensuring that an effective and efficient bridge existed between the two systems. This work is progressing to the point that joint sign-off on a specification is imminent.

At this time collaboration did not extend to the point that a member could use a single screen to direct trades to either system – this is something both parties could look at down the track but, at this time, their development pipelines were full.

Mike and Adrienne confirmed the meeting with NZX last week had been very cordial and clarified matters considerably. There was general comfort with the concept of dividend payment by a fixed period after books close date (NZX's Ex-date/Record date proposed change). Concern was expressed regarding a lack of understanding and clarity around the possibility of corporate action entitlements splitting off from head shares to effectively create another security. Such a change would include considerable impact for registry, the CSD, custodians as well as their clients. Mike Wolyncewicz offered to approach NZX and convey members' concern that if there is any likelihood the proposal will be seriously considered then there had to be full consultation and time for necessary adaptations to occur.

The Committee did feel there needed to be a strong effort made to ensure the market is properly consulted and educated on any changes.

REGULATORY DEVELOPMENTS

It was not clear what process MED and the Capital Markets Working Group would follow to consult the market in undertaking their reviews of the market. RBNZ would advise as this becomes clear.

ISSUES RAISED

Mark Lawrence asked if the Bank would consider a rule change whereby members could veto a Bank proposal. He explained, by way of example, that where a change benefited a minority, the majority may carry the costs of change. He said that earlier discussions with Committee members had considered that minorities needed some protection.

Mike Wolyncewicz responded that the Bank could not allow a right of veto to be exercised. The existing process obligated the Bank to consult on all material changes, the Committee could give advice to the Bank and the Bank was obligated to explain

the rationale for any decisions made. This is a transparent and robust process consistent with IOSCO standards.

Robbie asked if a middle ground existed whereby the beneficiaries of specific changes bore the cost. Adrienne confirmed that indeed the Bank had done this for initiatives in the past and would be prepared to do so in future where it is appropriate to do so.

Mike confirmed this and added that the Bank had strong alignment with members' interests to ensure changes are carried out efficiently and without waste or undue cost, particularly where competition exists. He could see a possibility that members and the Bank could disagree on how risk management issues should be handled, but there is a clear and effective process for the parties to fully exchange perspectives before decisions are made by the Bank.

ESAS WITHIN SCOPE OF THIS COMMITTEE MANDATE?

ESAS is not directly within the scope of this Committee's work and appropriately so. ESAS is a very stable environment. The last functional change (before ESASENQ) was Auto Offset some 6 years ago. Settlement Before Interchange (SBI) will be a big change for the banks which will likely result in changes to payment prioritisation, and this is clearly the work for ESAS Accountholders not Austraclear members.

Minutes from the April meeting were referred to. Occasionally, given the common computer platform and the fact that Austraclear is a feeder system, it is appropriate to mention ESAS developments within the Austraclear forum.

CONFLICTS OF INTEREST

The Bank explained that it is entirely comfortable with all Committee members and while it recognises that there is potential for conflicts of interest to arise, that is inevitable in a small market. The expectation is that members, when carrying out their duties, will act in their constituents' best interests rather than any entity's interest. Issues are also ameliorated by the fact the Committee's role is advisory rather than decision-making.

In order to assist the Committee to solicit feedback from members, the Bank would diarise to send members' contact details to the Committee about 3 weeks before Committee meetings so the Committee canvass members for their input for the next meeting.

OTHER BUSINESS

Mark Lawrence asked Adrienne and Graeme to look at a recently reported issue where members have been unable to access EQSUPLAN if another member has failed to exit the system.

Meeting closed at 10.20am

Next meeting Wednesday, 4 March 2009, at 9am.