



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 2009

Reserve Bank of New Zealand  
August 2009

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## Table of contents

System overview	3
Management commentary, year ended 30 June 2009	4
Key statistics	6
Risk management	8
Financial performance	9
Plan for 2009/10	10

## Directory

Austraclear New Zealand System

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ISSN 1175-6786

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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 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. Under the Austraclear New Zealand System Rules, the Bank’s and NZCSD’s liabilities to any member of Austraclear, arising out of, or in connection with, the system, are limited to direct losses, up to an aggregate of \$5 million for any one event.

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## Management commentary

### Year ended 20 June 2009

Key performance statistics are:	2009	2008
• System availability(%)	99.77	99.23
• Average daily transactions	974	1,119
• Revenue (\$000)	4,015	4,400
• Net Profit (\$000)	452	1,005
• Customer satisfaction (%)	98	97

The 2008/09 year, dominated by the global financial crisis, inevitably had implications for the Austraclear New Zealand business.

In these uncertain times, participants benefitted from the certainty provided by a payment and settlement system operated on a real time delivery versus payment basis.

While transactional flows through the system declined, especially later in the year, it was clear that payments were subject to much more intense management and oversight by banks, particularly during the aftermath of the collapse of Lehmans Brothers.

Custodial holdings held in the system increased significantly as financial institutions formed trusts to hold mortgages and issued mortgage-backed securities which were subsequently lodged into Austraclear. These securities assisted institutions to access New Zealand dollar liquidity, and so the Austraclear system played an important role in this material industry development.

System availability improved during the year as the Bank and Datacom put extensive effort into upgrading component software used by the Austraclear System. The improvement programme was completed late in the financial year and the system is now operating in line with expectations.

The software improvement programme did use considerable resources and, consequently, implementation of the TRANSACT screen-consolidation project was deferred until the last quarter of the 2009 calendar year. This development is in the test environment and we are pleased with the results thus far.

Significant work has been undertaken with officials from the Securities Commission to develop a framework that will allow an electronic interface to be built between Austraclear and securities registries. The interface is expected to be approved under the Securities Transfer Act 1991. Draft rule changes have been sent to members for consultation and are expected to be promulgated at the end of September 2009. Development of this important interface will occur once the Securities Commission approves the proposal which the Bank will put forward in its capacity as the system operator.

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A further challenge in 2008/09 has been the number and complexity of corporate actions. In particular many issuers took the opportunity to raise capital and to establish bonus share buy-back plans.

In 2009/10 the securities processing landscape will change significantly when a subsidiary of NZX Limited implements its new central counterparty clearing and settlement system. The Bank is working with NZX to ensure that the transition to the new system is smooth. An interface will be built to allow Austraclear members to electronically transfer securities between the two systems.

The Austraclear User Advisory Committee has been in operation for two years, and the Austraclear Rules require that elections for the Committee be held in August 2009. We would like to take this opportunity to formally thank the current committee for their constructive contribution and assistance.

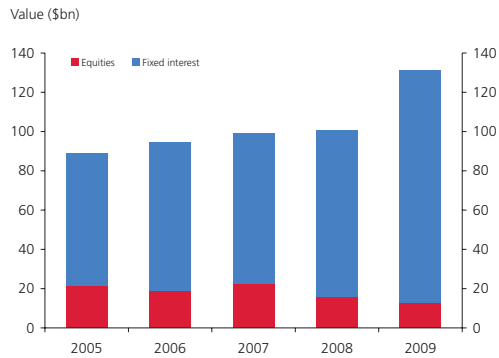
Name	Organisation	Sector Represented
Sarah Drennan (Chair)	ABN Amro New Zealand Limited	Broking
Dave Mitchell (Deputy Chair)	Computershare Investor Services Limited	Other
Patricia Bow	HSBC Nominees Limited	Custodian
Chris Knight	ANZ National Bank Limited	Banking
Mark Lawrence	ANZ Nominees Limited	Custodian
Miles O'Connor	Citigroup	Australia
Randyl Stack	Westpac Banking Corporation	Banking

After many years of the system being known as "Austraclear" which indicates the system's origins, we have decided it is time for the service's name to better reflect the market which it serves. After we go live with the TRANSACT screen we will be renaming the system "NZClear".

Our plan for 2009/10 will see us deliver functionality more efficiently and on a more resilient platform. The Austraclear team looks forward to continuing to lift operational standards, performance and improve outcomes for our user community.

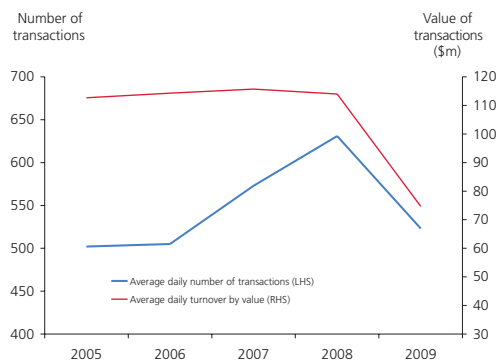
## Key statistics

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



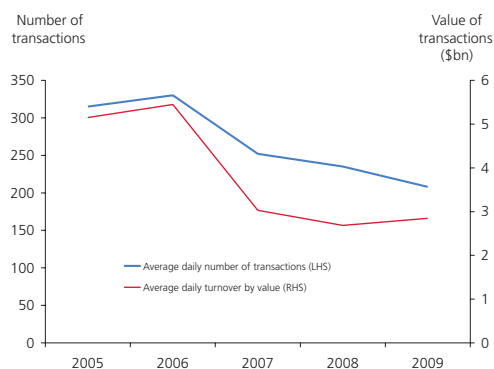
- Value of fixed interest securities has grown significantly over the year from \$84.9 billion to \$118.4 billion. The main increase has been due to mortgage-backed securities created and lodged into the system.
- The value of equity securities at 30 June 2009 was \$12.7 billion, down from \$15.6 billion at 30 June 2008.
- Total value of assets held in the depository as at 30 June 2009 is \$131.1 billion (2008: \$100.5 billion).

### Transactions – equities



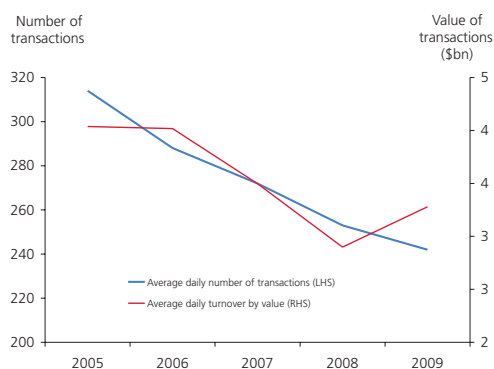
- The average daily volume of equity transactions declined by 17 percent for the year, and the value of equity transactions fell by 35 percent to \$74.7 million per day.

### Transactions – fixed interest



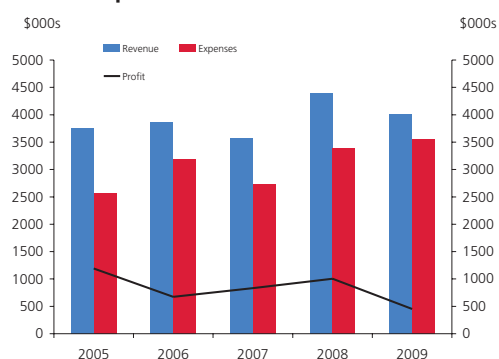
- Average transaction volumes were 208 per day (down from 235) and average value increased from \$2.7 billion per day to \$2.8 billion per day.

### Transactions – cash



- Volume declined from 253 transactions per day in 2008 to 242 transactions per day in 2009.

## Financial performance



- Revenue was down by 9% due to a significant decline in equity transaction volumes and fee revenue.
- The decline in revenue was the main driver of reduced profitability, which fell from \$1,005,000 to \$452,000.

## Member numbers as at 30 June

	2005	2006	2007	2008	2009
Full	56	56	56	64	61
Associate	57	47	49	47	41
Nominated trust	87	81	77	96	87
	200	184	182	207	189

- Member numbers reduced as members took the opportunity to consolidate accounts and rationalise investment products.

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

	2005	2006	2007	2008	2009
Application – all users	0	0	0	7:27	4:18
Application – subset of all users	0	0	0	9:40	0
Connectivity	18:20	7:42	0:10	21:30	4:19

- System downtime reduced particularly later in the year when a software improvement programme was completed.

## Customer satisfaction

	2007	2008	2009
Exceed expectations	21%	25%	18%
Meet expectations	76%	72%	80%
Does not meet expectations	3%	3%	2%
	100%	100%	100%

- Customer satisfaction remains at a high level.

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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 Bank recognises the operational risks which arise from the depository business and is continuously making improvements to reduce risk. The Bank will continue to work with members to automate manual processes, especially those related to lodges, uplifts and corporate actions.

The Reserve Bank has a local business continuity site in the Wellington central business district. This provides a site for the alternative location of staff in the event of an emergency impacting the Bank's main premises in Wellington. While a second computer site is located in Auckland and is used alternately with the Wellington computers 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 region-wide disaster in Wellington that renders Austraclear business staff unavailable. The Bank will have the Auckland office operational by 1 July 2010.

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## Financial performance

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

	2008/09	2007/08
	\$000	\$000
Income	4,015	4,400
Expenses	3,563	3,395
Net profit <sup>1</sup>	452	1,005

Total fee revenue for 2008/09 at \$4.0 million was 8.8 percent less than the fee revenue of \$4.4 million for 2007/08. This was due to a reduction in transaction volumes, particularly for equities which were down 17%. The new fee tariff which was implemented in October 2007 to recover the capital cost of the systems upgrade was applied for a full year in 2008/09, as against 9 months for the 2007/08 year. Applying the new tariff for a full year increased revenue year-on-year by \$0.2 million, therefore partially offsetting the revenue impact from significantly smaller equity volumes.

Costs include a full year's depreciation of the capital cost of the system upgrade (only 9 months depreciation was charged in 2007/08).

The Austraclear New Zealand business is attributed costs by the Reserve Bank. This includes charges for use of the Bank's resources, such as staff, occupancy, internal audit, governance, accounting and information technology. Indirect costs incurred by the Bank are allocated to the Austraclear New Zealand System based on estimated costs that the businesses would incur on a stand-alone basis.

The Austraclear New Zealand business is operated as a division of the Reserve Bank. The above figures are extracted from the 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 with the accounting policies specified in the Bank's financial statements.

<sup>1</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 \$136,000 (2008: \$332,000) and net profit after tax would have been \$316,000 (2008: \$673,000).

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## Plan for 2009/10

### **Austraclear New Zealand System**

#### **Plan for the Year Ended 30 June 2010**

The major initiatives and performance metrics for the year include:

- Obtain Securities Commission approval for an electronic interface to securities registries and implement straight through processing for most lodges and uplifts.
- Streamline system navigation by implementing the new TRANSACT screen.
- Implement a cost-effective enhancement required for systems interoperability with NZX's new system.
- Apply for designation of the system under the revised part 5C of the Reserve Bank Act once the necessary legislation is passed.
- Establish a small out-of-Wellington business presence to ensure there is sufficient business backup 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 in Wellington).
- Implement a change of name for the system.

As part of business as usual we will target to:

- Have the system available for members for at least 99.95 percent of core business hours.
- Achieve a surplus of \$0.1 million on revenue of \$4.0 million. Reduced budgeted surplus reflects provision for system enhancements that do not meet the threshold for capitalisation and also the attribution of costs relating to the establishment of the Bank's new office in Auckland.
- Have 4 meetings of the Austraclear User Advisory Committee over this period.
- Have the system subject to 4 external audits.
- Produce a quarterly newsletter.
- Survey members' satisfaction levels and report back to members by May 2010.