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## New Australian Securities Exchange chief defends blockchain plans

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Dominic Stevens, chief executive of ASX

The new head of Australia's primary stock exchange has defended the bourse's radical and controversial plans to upgrade its systems using blockchain technology.

Dominic Stevens was appointed chief executive and managing director of the Australian Securities Exchange (ASX) in August after its former chief executive, Elmer Funke Kupper, resigned following allegations of foreign bribery at Tabcorp, a leisure and gaming company he previously headed.

He takes over at a time when ASX's business — which includes

listings, market trading, clearing and settlement — is facing intense competition. Rivals are challenging its dominance in the Australian market at a time when the government is ending ASX's monopoly on equity clearing.

“We are going through a transformation in technology,” says Mr Stevens, who became a non-executive director of ASX in December 2013. “The other challenge [is about being] able to engage with our customers better, so they hold ASX's services in high regard.”

In a test case for applying blockchain technology to markets, ASX has partnered with Digital Asset Holdings, a fintech company, to develop a new back office system as part of a broader technology overhaul at the exchange.

Proponents of blockchain, the technology that underpins cryptocurrency bitcoin, say it has the potential to slice costs out of the financial sector, chiefly by streamlining the backroom processes of payments and settlements.

“We're working with Digital Asset Holdings on trying to get to a stage where we could contemplate [replacing ASX's clearing system],” Mr Stevens says. “That's quite a project.”

ASX's system is 22 years old and is central to its ability to clear and settle trades, as well as being a register for listed company shares. Should ASX manage to replace it with a blockchain system, there may be other opportunities for growing the business, Mr Stevens says.

ASX has spent \$17.4m on an 8.5 per cent stake in Digital Asset Holdings, which is headed by former JPMorgan Chase executive Blythe Masters. The start-up has attracted big backers, including Deutsche Börse Group and ICAP, the interdealer broker.

But critics say ASX has not consulted its users enough over the proposed upgrade. John Fildes, chief executive of Chi-X Australia, which is both a competitor and a customer of ASX, says brokers would prefer ASX to replace its clearing system with an industry standard protocol, which is a uniform way for messages to be sent between brokers and an exchange in order to clear and settle trades.

“It is an extra cost burden not to use globally implemented systems,” Mr Fildes says.

In a recent presentation to analysts and media, ASX attempted to allay such fears, making a distinction between a public blockchain, such as those developed for cryptocurrencies, and the private technology being considered by the company.

ASX says it has begun seeking feedback from its customers, having examined the technical and regulatory aspects of blockchain for six months. “We are consulting on taking what was a prototype that we built and turning that into something much more industrial-strength,” says Peter Hiom, ASX's deputy chief executive. “A significant engagement with our clearing and settlement participants is about to start.”

ASX will make a final decision on the technology in the financial year that ends in June 2018.

Other organisations are also considering bringing blockchain to the Australian market. Setl, a UK provider of blockchain technology for settlements and payments, is working with financial administration company Computershare to establish securities ownership registers, or records of who owns shares and other financial instruments. “The focus of competition [in the Australian market] has subtly shifted from ‘front-office’ infrastructure to the much more complex and expensive ‘post-trade’ processes,” says Setl chief executive Peter Randall.

ASX’s move to new technology comes amid a wave of consolidation in the sector. The €24 billion merger between the London Stock Exchange Group and Deutsche Börse was recently approved by both companies’ shareholders. Meanwhile, shareholders in the Baltic Exchange have also agreed to its acquisition by SGX, the Singaporean bourse.

Nonetheless, Mr Stevens says international consolidation is not in his immediate plans. “There’s nothing on my agenda at this stage, but no one ever rules out anything,” he says.



In 2011 the Labor government blocked an A\$8bn takeover of ASX by the Singapore exchange, ruling it was against the national interest.

Canberra unveiled a plan earlier this year to relax ownership restrictions, which removed a hurdle to ASX’s participation in overseas mergers.

Yet Mr Stevens argues that international consolidation has limited benefits for a business such as ASX. Regulators also prefer clearing and settlement functions to remain within their own countries, he adds.

“Financial markets, and particularly the infrastructure and the backbone that sits behind financial markets, I think tend to be best housed inside their own economies,” he says.

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