

Assessment of FinClear Pty Ltd

September 2024

FinClear Pty Ltd (FCX) has applied for an Australian clearing and settlement (CS) facility licence to operate a securities settlement facility (SSF). The proposed facility uses distributed ledger technology (DLT) and the tokenisation or digital representation of instruments (shares in a company and interests in a managed investment scheme that is structured as a unit trust) to facilitate the trading and settlement of these instruments. 'Cash tokens' represent FCX participants' entitlements to Australian dollars held in a client money account operated by FCX. The proposed CS facility involves the operation of a central securities depository (CSD). The proposed CS facility is not interoperable with any other markets, CS facilities or payment systems.

FCX proposes to provide registry services for issuers of securities on its platform. It has also applied for a licence to operate a tier 2 financial market for these securities. The CS facility licence application is being progressed alongside an Australian market licence application and is dependent on the latter being granted.

Based on the information made available to the RBA, the annual settlement activity of the proposed facility will be below the 'activity threshold' under the Financial Stability Standards (FSS) for Securities Settlement Facilities (SSF Standards). The SSF Standards do not apply to CS facility licensees that operate an SSF through which the value of financial obligations settled in a financial year, calculated on a gross basis, do not exceed a threshold value, which is currently set at \$40 billion.

As FCX is expected to hold a small share of settlement activity in the Australian financial system and does not interoperate with another CS facility or payment system, it is unlikely to directly pose systemic risks to financial stability. In addition, it is unlikely that defaults by participants of the proposed CS facility in paying for or delivering securities will have significant flow on effects in the Australian financial system. This reflects that the proposed CS facility provides services in relation to only one financial market, operated by FCX, which reduces systemic risk consequences.

FCX has agreed to structure its business developments in such a way that it can comply with the SSF Standards prior to exceeding the threshold value. The RBA may, at its discretion, require an assessment of FCX against any or all of the SSF Standards once they apply. If it is granted a licence, FCX will be required to comply with all other relevant sections of the Act, including the obligation to do all things necessary to reduce systemic risk, to the extent that it is reasonably practicable to do so.