

Agenda

Business Committee

Date	28 October 2020	Time	12:00pm – 2:00pm
Location	By teleconference		
1. Service Performance			12:00pm-12:15pm
a) Cash Market Clearing and Settlement - Operating Performance			
2. CHES Replacement Project			12:15pm-1:20pm
a) CHES Replacement			
– Application			
– Infrastructure and ledger			
– Integration and reporting			
– Rules and regulatory engagement			
– Stakeholder engagement			
– Cutover, transition and customer readiness			
b) Update on consultation feedback and revised implementation timetable			
c) Update on independent assurance program			
3. Service Enhancements			1:20pm-1:30pm
a) Update on the Corporate Action STP Phase 2 project			
4. Regulatory Expectations			1:30pm-1:45pm
a) Annual Cash Equities Clearing and Settlement Reports			
– Report on cash equities clearing and settlement services development			
– External audit of ASX compliance with regulatory expectations			
5. Administration			1:45pm-1:55pm
a) Minutes from the 19 July 2020 Business Committee Meeting			
b) Forward work program			
c) Other matters			
6. Next Meeting – 7 December 2020			

Action Items

Item number#	Action	Due date	Status	Owner
2019 Sept (1)	Communicate with issuers on the proposed changes to corporate action forms and processes	Nov 2019	Completed	Karen Webb
2019 Sept (2)	Further information regarding how the market could use the optional DLT capabilities of the system	Nov 2019	Completed	Cliff Richards
2019 Sept (3)	Summary of the types of CHES replacement project risks ASX tracks	Nov 2019	Completed	Hamish Treleaven Cliff Richards
2019 Sept (4)	Implement changes to Business Committee processes (draft agenda and meeting action items)	Nov 2019	Completed	Gary Hobourn
2019 Sept (5)	Invite AMOs to attend the next meeting of the Implementation and Transition Working Group	Nov 2019	Completed	Keith Purdie
2019 Sept (6)	Circulate the annual Regulatory Expectations audit report and Management Accounts for the CS facilities	Nov 2019	Completed	Gary Hobourn
2019 Sept (7)	Organise a meeting with AMOs to discuss the issues raised during the PWC audit	Nov 2019	Completed	Karen Webb
2019 Sept (8)	Respond to industry feedback following release of ASX Clear GN10: Business Continuity & Disaster Recovery	Nov 2019	Completed	Hamish Treleaven
2019 Nov (1)	Provide members with the proposed times for the meeting dates in 2020.	Dec 2019	Completed	Gary Hobourn
2020 Apr (1)	Facilitate, with an industry group member, more effective engagement on benefits of the new system.	Jul 2020	Completed	Peter Hiom

Business Committee Members

Company	Name	Job Title	Apologies
ABN AMRO Clearing	Barry Parker	Chief Executive Officer	
AFMA	David Lynch	Chief Executive Officer	
ASX	Peter Hiom	Business Committee Chair, Deputy CEO	
ASX	David Raper	Executive General Manager, Trading Services	
AIRA	Ian Matheson	Chief Executive Officer	
ACSA	Rob Brown	Chief Executive Officer	
ASA	Fiona Balzer	Policy & Advocacy Manager	
Automic	Paul Williams	Managing Director	
BAML	Stephen Hacker	Director, Head of Operations	
Bell Potter Securities	Rodd Kingham	Head of Operations - Transformation	
BNP Paribas	Mark Wootton	Head of Custody Product Aust & NZ	
Chi-X Australia	Mike Aikins	Chief Operating Officer	
Citi	Miles O'Connor	Director, Direct Custody & Clearing Securities & Funds Services	
CMC	Andrew Rogers	Director of Broking Business	
CBA (CommSec)	Sheridan Thompson	Head of Strategic Development	
Computershare	Scott Hudson	Head of Intermediary Services	
Credit Suisse	Winston Loke	Australia Equities COO	
Deutsche Bank AG	Geoffrey Plaisted	Chief Operating Officer, Equities	
Goldman Sachs	Yen Le	Executive Director	
GIA	Megan Motto	Chief Executive Officer	
HSBC	Nichole Alexander	Manager, Aust Market Advocacy & Development	
J.P. Morgan	Jonathan Evans	Head of Custody & Markets Operations	
Macquarie Group	James Indge	Cash Equities Business Manager	
Morgan Stanley	Rebecca Hill	Chief Operating Officer	
Morgans	Peter Chisholm	Manager, Transactional Services & Settlement Systems	
NAB	Anita Mead	Head of Business Management, Self-Directed Wealth	
NSX	John Williams	Head of Admissions	
Pershing Securities	Leigh Conder	Chief Operating Officer	
SAFAA	Judith Fox	Chief Executive Officer	
Sydney Stock Exchange	Antony Tolfts	Listings Director	
UBS	Conor Foley	Chief Operating Officer	

ASX Management

Name	Job Title	Apologies
Tim Hogben	Chief Operating Officer	
Daniel Moran	General Counsel	
Hamish Treleaven	Chief Risk Officer	
Cliff Richards	Executive General Manager, Equity Post Trade Services	
Dan Chesterman	Chief Information Officer	
Val Mathews	Executive General Manager, Operations	
Sally Palmer	Deputy General Counsel	
Katie McDermott	General Manager, Equity Post Trade Services	
Diane Lewis	General Manager, Head of Regulatory Affairs	
Karen Webb	Senior Manager, Equity Post Trade Services	
Keith Purdie	Senior Manager, Equity Post Trade Services	
Con Korkofigas	Senior Legal Counsel	

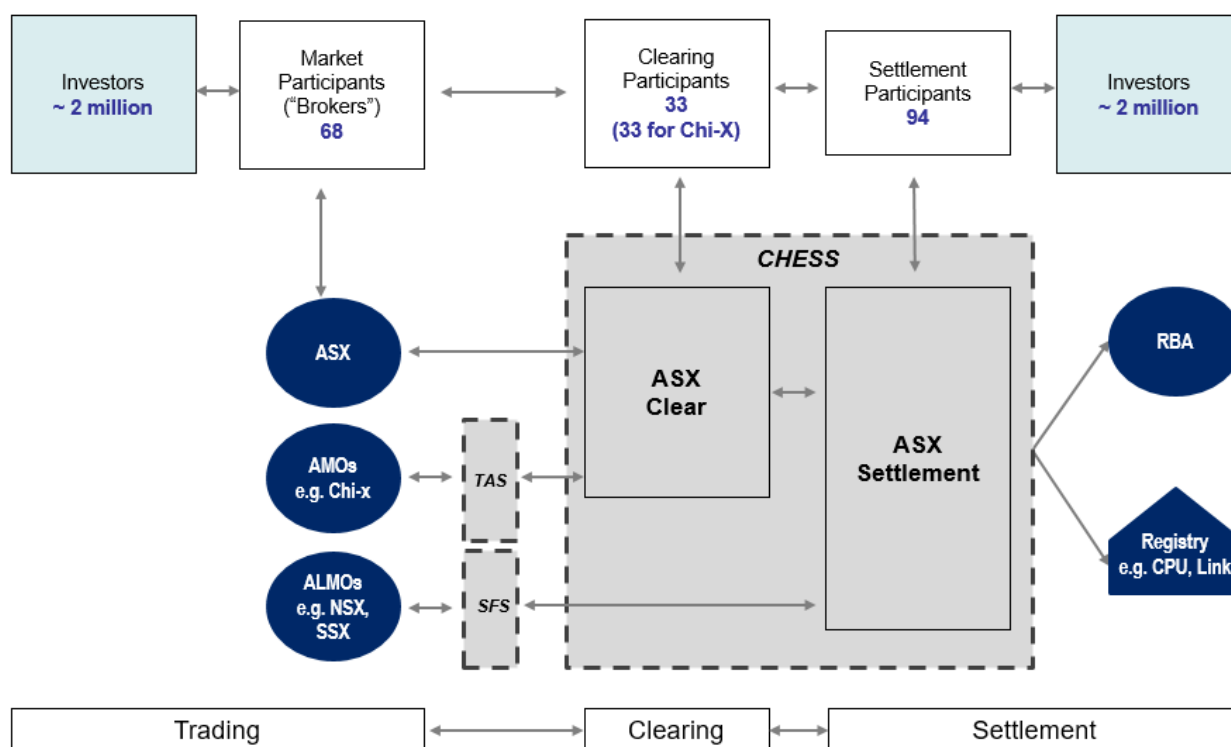
Observers

Name	Job Title	Apologies
Nathan Bourne	Senior Executive Leader, Market Infrastructure (ASIC)	
Dodie Green	Senior Manager, Market Infrastructure, (ASIC)	

Committee	Business Committee
Agenda title	Cash market clearing and settlement services - Operational performance
Item	1a
Purpose	To report on key performance metrics for ASX's clearing and settlement services.
Meeting date	28 October 2020
Prepared by	EGM, Operations (Val Mathews) / Senior Manager, Settlement Operations (Brendan Laird)

OVERVIEW

Market Structure Overview



The clearing and settlement of equities performs a critical role in the operation of Australia's financial markets, helping to reduce counterparty and systemic risk, and provide transaction efficiency and certainty for end investors.

Core processes that provide these benefits include novation, netting and settlement.

Novation

Through a contractual process known as novation, ASX Clear becomes the seller to every buyer and the buyer to every seller, making it liable for completing all cleared transactions on the relevant market. Novation performs two important functions:

- it replaces the clearing participants' credit exposures to other clearing participants by substituting the clearing house as the central counterparty; and
- it maximises capital efficiency for clearing participants by permitting a single net exposure to be calculated and collateralised between the clearing house and each clearing participant.

Through novation, ASX Clear provides protection to non-defaulting clearing participants (and, indirectly, their clients) from the inability of a defaulting clearing participant to meet its obligations.

A key metric for monitoring novation is the percentage of on and off market trading that is novated.

Trades submitted for clearing and settlement by any market operator are verified prior to registration by ASX Clear. If the verification conditions are not satisfied then trades are rejected. Once a trade is registered it is novated. Novation is deemed to be effective from the matching of bid/offer (on market trades) or recording of the trade (reported trades) for all trade execution venues.

Netting

ASX Clear is approved as a 'netting market', and ASX Settlement is an 'approved netting arrangement', for the purposes of the Payment Systems and Netting Act. This gives legal certainty to the netting of settlement obligations. Settlement on a multilateral net basis maximises market efficiency by reducing participant transaction and funding costs.

A key metric for monitoring netting is the percentage by which novated value is netted down for settlement. This metric is termed "netting efficiency".

Settlement

ASX's model for settlement maximises efficiency, while minimising the risk of settlement failure. It does this by simultaneously transferring the legal ownership of shares and facilitating the transfer of money for those shares. This is done through a Model 3 multilateral net batch settlement mechanism with irrevocable settlement finality at the end of the processing cycle. The transfer of money occurs across the Exchange Settlement Accounts of payment providers in the RBA's Information and Transfer System (RITS).

A key metric for monitoring settlement is the percentage of scheduled settlement that successfully settles (i.e. the opposite of the "fail rate"). This metric is termed "settlement efficiency".

Service availability

ASX's critical processes of novation, netting and settlement and are supported in ASX's core system CHES. It is critical for market operations, that CHES remains stable and available for processing. A key metric for monitoring systems availability is the percentage of systems uptime as measured against target availability times. The service availability target for CHES is 99.80%.

For the September 2020 quarter, the average monthly system availability was 100% for CHES. The average monthly availability of CHES has been 99.99% between November 2011 and September 2020.

Trade Acceptance Service and Settlement Facilitation Service

ASX Clear and ASX Settlement's Trade Acceptance Service (TAS) provides a mechanism for Chi-X to submit trades into CHES and Settlement Facilitation Service (SFS) provides settlement arrangements for unaffiliated Approved Listing Market Operators (ALMOs) in respect of the CHES-eligible financial products listed on their markets (NSX and SSX). The CHES system performs the clearing and settlement functions.

The Trade Acceptance Service and Settlement Facilitation Service availability target is 99.80% (the same as CHES).

For the September 2020 quarter, the average monthly system availability was 100% for the TAS and Settlement Facilitation Service. The average monthly availability of the TAS and SSF has been 99.99% between November 2011 and September 2020 (which is the same as CHES).

Reporting on clearing and settlement service performance

The key metrics noted above on novation, netting efficiency and settlement efficiency for the September 2020 quarter are reported in Attachment A. They are also supported by charts demonstrating a longer reporting period in Attachment B.

Settlement Performance

A performance metric for monitoring the CHES settlement batch is the fail performance.

For the September 2020 quarter, the daily average fail performance has reduced to 0.223% and averaged 0.320% for the calendar year, between January 2020 and September 2020.

The daily average fail performance was 0.302% between November 2011 and December 2019.

During the quarter ASX Settlement Operations has been reviewing the daily settlement data for recurring trends in the settlement failure rate, to monitor and ensure there are no systemic issues.

Month	September	August	July	June	May	April	March
Average Fail Rate	0.265%	0.226%	0.180%	0.267%	0.213%	0.681%	0.593%
Maximum Fail Rate	0.519%	0.451%	0.275%	0.741%	0.395%	3.799%	2.658%
Minimum Fail Rate	0.102%	0.128%	0.116%	0.071%	0.116%	0.055%	0.184%
# of days Fail rate > 0.50%	7	0	0	3	0	6	11
Batch Settlement Extensions	0	0	0	1	2	0	5
Fall back of Payment Provider	1	1	0	1	0	0	2

Supplementary Information for quarter of September 2020

Overview

Through the September Quarter, there has continued to be an increased number of corporate actions processed in CHES due to the temporary regulatory relief and updated guidance to support listed companies and investors during the COVID-19 pandemic. The most common corporate actions seen in this quarter were Institutional Placements and Entitlement offers.

The increased number of Entitlement offers contributes to the reduction in netting efficiency, as a result of the netting being turned off for those “entitled” securities. It is a standard process to turn netting off for certain corporate events to enable more efficient resolution of entitlement claims should failure of settlements occur.

CHES Processing Improvement Update

Active CHES system remediation addressing hardware, processing efficiencies and performance tuning has successfully improved the transactional throughput of CHES and key capacity constraints. These improvements include:

- CHES trade registration – message queues significantly reduced with minimal backlogs
- CHES daily settlement process – reduced from approximately 60 minutes to 30 minutes
- CHES end-of-day (EOD) overnight netting process – average processing time reduced by two hours.

ASX has also completed upgrades of the storage arrays used for CHES system. This allows faster disk read and writes, and benefits intraday and overnight processes that utilise high input and output throughput for the disks.

Benchmarking has demonstrated that the intraday trade capacity for CHES has now been increased to 7 million trades per day, over multiple consecutive days, and progressive uplifts in system capacity and performance will be undertaken during 2020 and 2021.

It is important to note that intra-day processing capacity of CHES registering trades must be accompanied with improvements to overnight batch processes. These include generating corporate action cum entitlement balances, customer reporting, and the requirement to generate net broker obligations (NBOs). The creation of NBOs is particularly challenging as volumes increase. This is because the daily overnight NBO process must complete within a short window to allow other overnight batch processes to complete in a timely manner. Further investigation of options to address these batch processing constraints is being undertaken

ASX Clearing and Settlement facilities (ASX C&S) has also assessed the business and operational controls that could be implemented to manage operational effectiveness, and the approach that ASX C&S could take in the event of an exceptionally large trade count day, which might impact on the capacity and integrity of CHES processing, as experienced on 13 March 2020. These potential actions have been reviewed with market operators and the regulatory agencies and were communicated to the market on [22 September 2020](#).



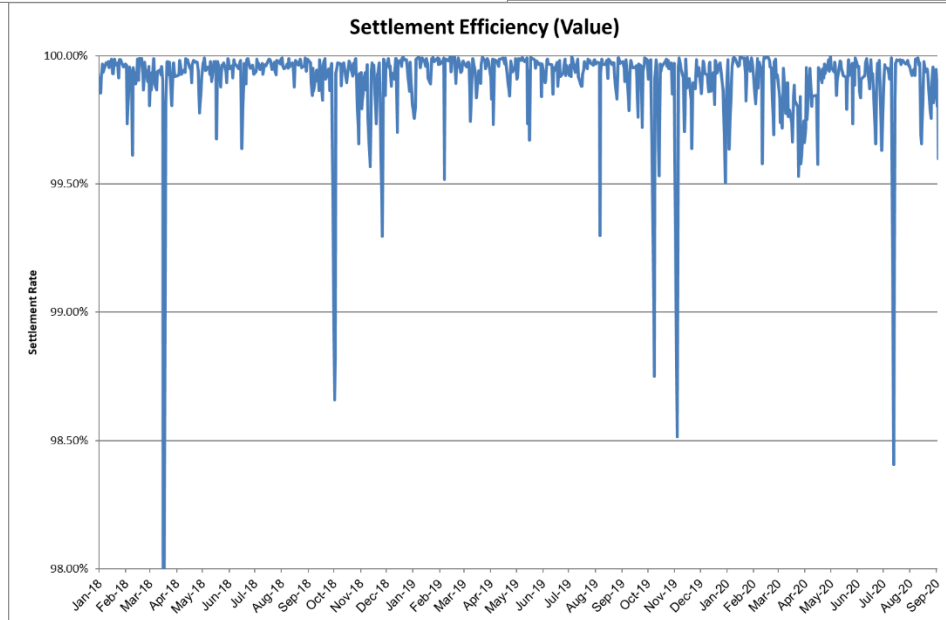
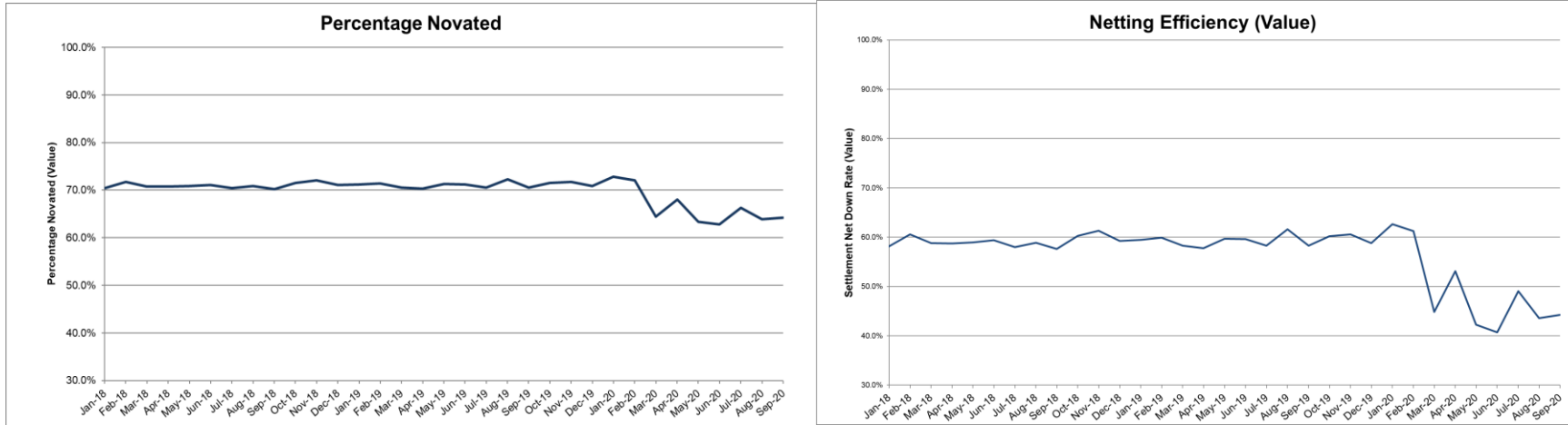
ATTACHMENT A – SUMMARY METRICS RELATING TO THE PERFORMANCE OF ASX’S CLEARING AND SETTLEMENT SERVICES

	September 2020 Quarter	June 2020 Quarter	March 2020 Quarter
System Availability (CHES)	100%	100%	100%
System Availability (TAS)	100%	100%	100%
Total Trades Accepted (ASX)	100,368,539	108,065,942	138,570,453
Total Trades Rejected (ASX)	0	0	0
Total Trades Accepted (Chi-X)	34,777,945	34,068,422	47,887,097
Total Trades Rejected (Chi-X)	0	0	11,468
Total Settlements (SSX)	18	0	0
Total Value of Settlements (SSX)	\$11,000	\$0	\$0
Total Settlements (NSX)	914	714	391
Total Value of Settlements (NSX)	\$12,485,131	\$10,691,912	\$6,192,782
Daily Average Traded Value (On and Off Market)	\$6.4 billion	\$7.5 billion	\$8.5 billion
Daily Average Cleared Value	\$4.1 billion	\$4.9 billion	\$5.9 billion
Percentage Novated	64.79%	64.74%	69.77%
Daily Average Cleared Value Post-Netting	\$2.25 billion	\$2.64 billion	\$2.63 billion
Netting Efficiency (Value)	45.6%	45.3%	56.2%
Netting Efficiency (Volume)	98.14%	98.49%	99.01%
Daily Average Settled Value (Including Non-Novated)	\$11 billion	\$13.4 billion	\$14 billion

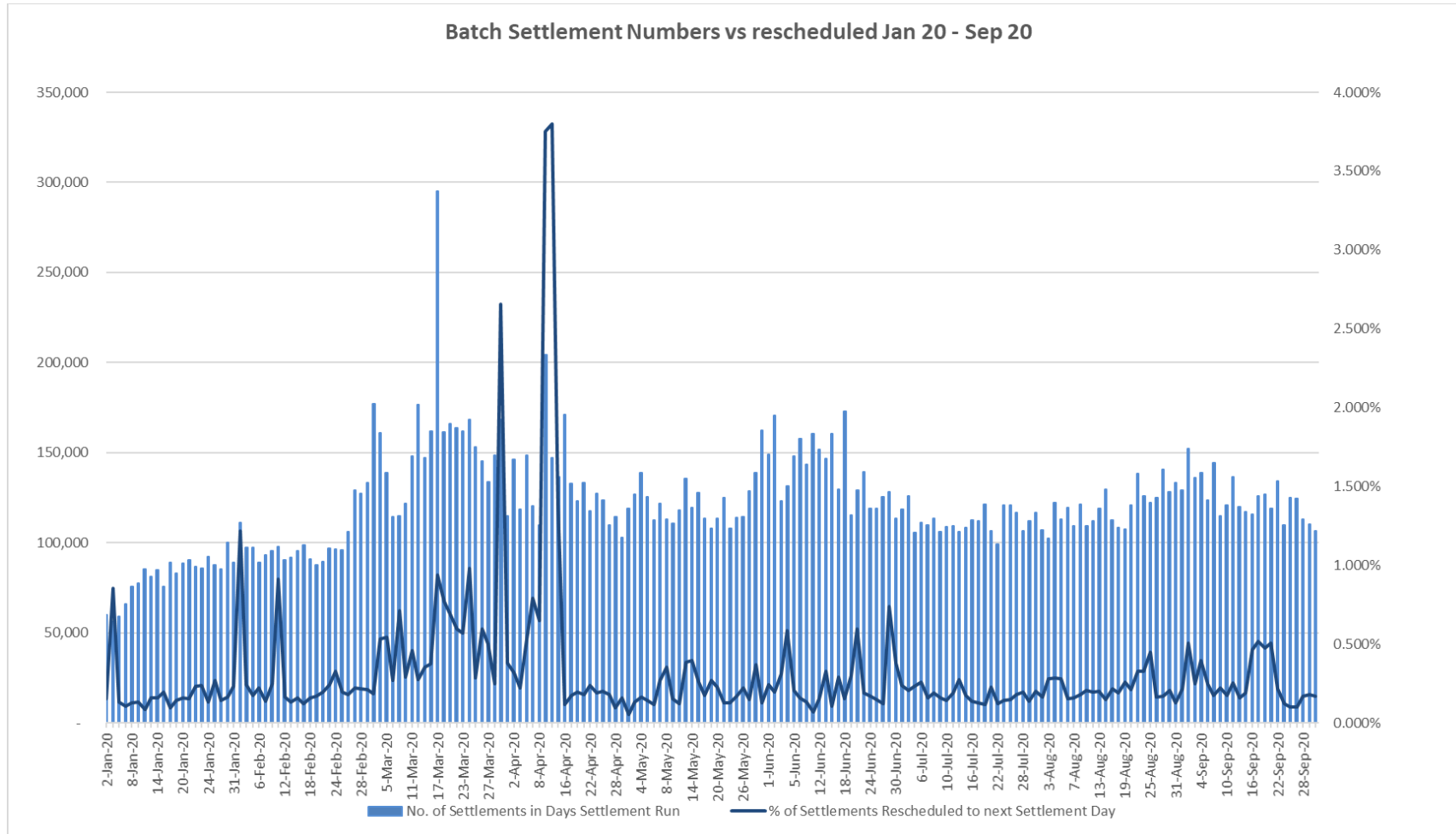


Settlement Efficiency (Value)	99.90%	99.90%	99.88%
Average Daily CHES Fail Rate (% Rescheduled to the next settlement date)	0.22%	0.38%	0.36%

ATTACHMENT B – PERFORMANCE OF ASX'S CLEARING AND SETTLEMENT SERVICES FROM JANUARY 2018 TO SEPTEMBER 2020



ATTACHMENT C – BATCH SETTLEMENT NUMBERS VS RESCHEDULED JAN-SEP 2020



Committee	Business Committee
Agenda title	CHES Replacement – Program Update
Item	2a
Purpose	To provide Business Committee members with a program update
Meeting date	28 October 2020
Prepared by	Senior Manager, Equity Post Trade Services (Keith Purdie)

OVERVIEW

On 28 July, the consultation period on a revised implementation timetable, with a new go-live date of April 2022, closed. Since then, ASX has been reviewing and taking into consideration all feedback. An update on consultation feedback and ASX's response, resulting in a confirmed implementation schedule, will be tabled separately. See agenda 2b for further details.

In parallel to the consultation on a revised implementation timetable, ASX has released its response to consultation feedback on the Tranche 2 draft rule amendments which included draft rule changes made to the ASX Settlement Operating Rules and Procedures which take into account feedback received.

ASX has delivered the eighth functional release of software into the customer development environment (CDE) on 14 September. This included new functional features for corporate actions, settlement, payment provider approvals and reporting (including end of day reports for share registries). The documentation portal has also been updated to include new operational procedures and guidelines, messaging accreditation scripts and updates to the CHES User Interface (UI) documentation on user management.

The CHES replacement webpages have also been refreshed as part of ASX's cut-over to its new digital website on 12 October.

Application Design, Build and Test

The eighth drop of code into the customer development environment was released as planned on 14 September. This release included new features for holding administration locking and unlocking, new corporate action workflows, the payment provider authorisation for RTGS payments workflow for bilateral demand settlement instructions as well as new issuer (registry) end of day reports. There was also a new auto-responder in CDE to support scheduled settlement instruction testing. CDE continues to be refreshed every two weeks to optimise the performance of the software in customers' dedicated development environment.

The next code release, CDE9, is scheduled to be delivered at end November 2020. ASX will confirm the timetable to release the outstanding features to complete the development of clearing and settlement functionality, as part of its formal reply to consultation feedback.

ASX's testing is tracking to have all internal functional testing being completely automated. Non-functional testing is also continuing with a focus on trade registration processing (throughput) to assess performance. This testing will be ongoing as performance thresholds are incrementally increased as we advance to the opening of a production grade performant industry test environment (ITE).

ASX has held bilateral engagements with share registries to ensure awareness and aid their understanding of the software they can test from CDE8, which included the completion of all end of day scheduled reports.

In general, all third party vendor (six key back-office software providers) development and testing is keeping pace with code drops. ASX is now focused on efforts to assist in-house developers with their testing activity in CDE.

Development on the CHES UI that replaces the CHES PC desktop application continues and is tracking to schedule. Features are being developed alongside the DA application build in addition to the incorporation of additional customer functionality such as ‘four eyes’ approval workflows, user management and audit requirements. A demonstration of the CHES UI to external stakeholders was held in July as part of the Implementation and Transition working group and technical documentation has been released for the features developed to date.

Infrastructure and Ledger

The distributed ledger and related software components have been deployed across multiple data centres including ASX’s primary and secondary facilities – the Australian Liquidity Centre (ALC) and Secondary Data Centre (SDC) respectively.

Over 10 testing instances of the ledger software have been deployed and are being used to test functional and non-functional requirements including security, resiliency and performance.

Integration and Reporting

Development work continues on the remaining external customer reporting that is still to be delivered into CDE. Additional share registry message based reporting was also delivered in CDE8 in mid-September.

Rules and Regulatory Engagement

On 24 September, ASX released its [response to feedback](#) on the Tranche 2 draft rule amendments consultation. The content related to corporate actions, mFund and RTGS payment aspects for the new system. RTGS supports payments for corporate actions involving entitlement acceptances as well as payments for bilateral demand settlement instructions (addressed in the tranche 1 rule amendments). ASX received a total of 11 submissions from a range of stakeholders including participants, registries, payment providers, an industry body and an approved listing market operator.

ASX’s response to consultation feedback contained:

- A summary of the feedback received in stakeholder submissions
- ASX’s response to such feedback
- The draft rule changes made to the ASX Settlement Operating Rules and Procedures which take into account feedback received.

Changes made include amendments to the DRP and BSP election solution design and supporting rules to reflect a simplified “pass through” model for election and cancellation notifications, with ASX to no longer maintain a current record of election status across CHES holdings or limit permissible elections or cancellations based on current election status recorded in CHES. This is to be supported by DRP and BSP enquiry functionality as to the current election status on a CHES holding.

ASX has also held bilateral meetings with a couple of stakeholders who provided detailed feedback to the consultation in respect of DRP and BSP elections and other aspects, to discuss ASX’s response to their feedback.

The consultation process also provides for a further and final round of consultation covering both the draft tranche 3 rule amendments and a consolidated rules package across all the rule amendments for the new system (as covered by the three tranches). ASX suspended this consultation to allow for feedback on the proposed consultation period through the June consultation on the revised implementation timetable. ASX

will provide further details on the confirmed timeline for this further consultation as part of the formal reply to consultation feedback on the revised implementation timetable for CHES Replacement.

Stakeholder Engagement

Implementation and Transition working group

ASX has hosted three further Implementation and Transition working groups.

The working group meeting held on 7 October 2020 included an update on electronic CHES holding statements targeted to go live later this year. Working group members were provided an overview of the proposed electronic delivery solution. In addition, working group members were also presented with an update on CDE including some of the key features in CDE8 with a particular focus on what is available to test from a share registry perspective and the forthcoming CHES replacement website changes that went live on 12 October.

The working group meeting held on 26 August 2020 focused on the outstanding considerations for inflight transactions, the migration of accounts and holders and provided more details on the ASX conversion tool for registration details. Further to the webinar at the start of this year on inflight transactions, working group members were provided with a re-cap on the fundamentals of data migration and the data elements that will be migrated. The session then outlined the proposed migration approach for those inflight transactions not previously covered, which included collateral requests, takeover acceptances, failed settlement obligations and mFund transactions. ASX is targeting to provide documentation on managing inflight transactions by end October 2020. Working group members were then provided an update on outstanding account and holder migration considerations. This included the requirements on CHES users to remediate non-compliant accounts prior to the cut-over weekend. Further details were also provided on the ASX conversion tool for registration details which will help facilitate the conversion by converting registration details to the new format so that CHES users can use the output files to load into their back office systems. The tool will also identify non-compliant registration details. ASX outlined the functional and non-functional requirements for the registration details tool, the format of input and output files, and a list of warning and errors where registration details do not meet the validation rules.

The working group meeting held on 29 July 2020 included a live demonstration of the CHES UI, the replacement to the CHES PC desktop application. Working group members were updated on the key features and shown how to query information and submit messages using the CHES UI. Working group members were also provided with an update on Corporate Actions STP, including release 2 that went live in early July, as well as providing an update on Release 3 targeted for March 2021.

All Implementation and Transition working group materials continue to be made available through the CHES replacement website, including an audio recording of the webinar and ASX's published reply to questions posed during the webinar. All previous presentation materials, including the last three meetings can be found here:

[Implementation and transition working group presentation materials – 29 July, 26 August, and 7 October](#)

Issuer Engagement

ASX has undertaken a recent program of issuer engagement with over 50 ASX 100 companies, to both update companies on the project and to elicit feedback, including any concerns, directly from listed companies. In these discussions, listed companies understood the need to replace CHES and were focused on electronic holding statements and the potential for new issuer services.

Participant Fact Sheet

Following the CHES replacement issuer fact sheet published in June, ASX published a similar factsheet on 27 July from the perspective of market participants including benefits and an update on pricing. The participant fact sheet was sent to all clearing and settlement participants including product issuer settlement participants (PISPs). A copy of the fact sheet can be found here:

[ASX CHES Replacement Fact Sheet for Participants](#)

Newsletters

ASX continues to provide project updates to all stakeholders through the CHES Replacement Project Newsletters. A copy of the most recent newsletters can be found here:

[CHES Replacement Project Update - September 2020](#)

[CHES Replacement Project Update - August 2020](#)

[CHES Replacement Project Update - July 2020](#)

CHES Replacement webpages

The CHES replacement webpages have also been refreshed as part of ASX's cut-over to its new digital website on 12 October. The new CHES replacement pages have been streamlined and the design simplified, making it easier to navigate and find the relevant project resources to assist stakeholders with the project and their readiness activities.

Cutover, Transition and Customer Readiness

As part of customer readiness, ASX has now released 7 tranches of technical accreditation scripts for messaging. The message accreditation scripts identify the required test scenarios, by each relevant CHES user type. ASX is targeting to have completed all messaging accreditation scripts by end of 2020 for items currently in scope for Day 1.



Committee	Business Committee
Agenda title	CHES Replacement – Consultation feedback and revised implementation timetable
Item	2b
Purpose	Members will be provided with an update on consultation feedback and a revised implementation timetable
Meeting date	28 October 2020
Prepared by	Senior Manager, Equity Post Trade Services (Keith Purdie)

OVERVIEW

On 30 June 2020, ASX released its [consultation paper](#) on the CHES Replacement Revised Implementation Timetable. The paper set out key project activities and milestones including system development and testing, user testing, technical accreditation, operational readiness and operating rule amendments.

Feedback was sought from CHES users on their ability to meet the revised implementation timetable, with a new go-live date of April 2022. The consultation period was open for four weeks and closed on 28 July 2020.

ASX will provide Business Committee members with an update at the meeting.



Committee	Business Committee
Agenda title	CHES Replacement – Independent Assurance Program
Item	2c
Purpose	Members will be provided with an update on the CHES replacement independent assurance program
Meeting date	28 October 2020
Prepared by	Senior Manager, Equity Post Trade Services (Keith Purdie)

OVERVIEW

The CHES replacement program is accompanied by a formal assurance program. The objective of the assurance program is to ensure the CHES replacement program meets its key objectives.

The assurance program involves distinct reviews performed by either external independent assurance providers, specialist consultants, or internal ASX resources that are independent of the CHES replacement program.

ASX will provide Business Committee members with a verbal update on 28 October on the independent assurance program for CHES replacement.

Committee	Business Committee
Agenda title	Corporate Actions STP Phase 2 project
Item	3a
Purpose	To provide Business Committee members with an update on progress of the Corporate Actions STP Phase 2 project
Meeting date	28 October 2020
Prepared by	Senior Manager, Equity Post Trade Services (Karen Webb)

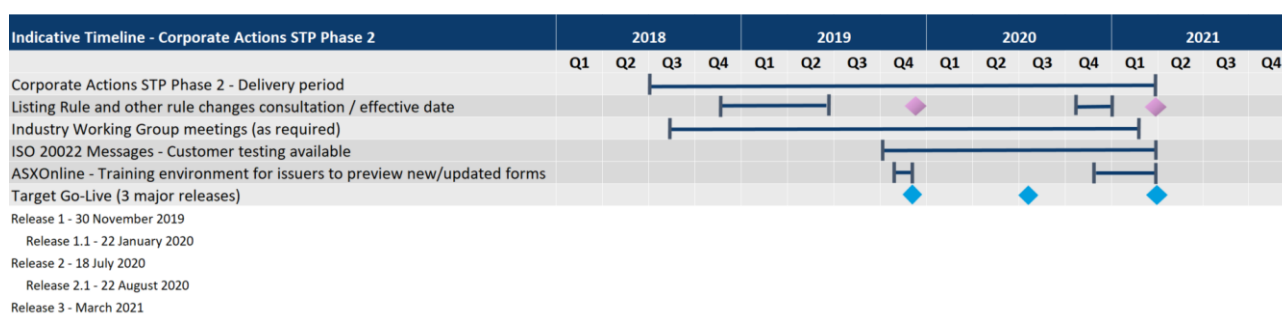
Update on project progress

The project team is progressing well in delivery of the key activities associated with the third and final release for the project, targeting March 2021.

Delivery timeline

The project remains on track to achieve its third and final release in March 2021.

The current high-level project delivery timeline is presented in the table below. Further details on the streams of work are included in the detailed update later in this paper.



Release 3 – March 2021

As noted at the July Business Committee meeting, Release 3 is focused on delivering full STP for the announcement through to ISO 20022 dissemination events. The bulk of this work is related to introducing additional online forms for use by issuers, and building interfaces between the online forms and ASX database (pre and post announcement release) and associated workflows.

A total of six additional online forms are undergoing development for release in March, with full STP where possible. The new forms include the Appendix 2A, Appendix 3G, Appendix 3A.5 (currently word forms) and new forms Appendix 3H (notification of cessation of securities), Appendix 3C (new buy-back form) and a monthly units on issue statement for ETF/AQUA issuers. The release will benefit issuers in having ‘smart’ forms available for use, rather than word forms, improve efficiencies for ASX operations and support the timeliness of the ReferencePoint corporate action and securities notification services, including the ISO 20022 service.

Additionally, the scope has recently been refreshed to include a number of changes to existing online forms, and the proposed new forms (Appendix 3H and Appendix 3C) that will be outlined in an upcoming consultation on listing rule changes. The consultation is expected to commence this year, subject to regulator timing. A number of the changes are in response to market feedback regarding the timing of particular issuer actions in certain event timetables including dividends, interest payments, entitlement offers and security purchase plans.

Requirements for the additional ISO 20022 corporate action event notification for “other” events (e.g. reinvestment offers) have been completed, and the draft ISO 20022 usage guideline has been published in SWIFT MyStandards for review by the industry working group members. Development of the new message will be completed in November, taking into account any feedback from the working group. It is expected the ISO 20022 notification will be available in the test environment from end December 2020.

ISO 20022 corporate action notification service

The new production service has been performing well since go live in July, with over 3,500 ISO 20022 event notifications published by ASX. These notifications include new event announcements, updates to event information and event cancellations. Testing of the ISO 20022 notification service continues to be available to interested subscribers.

Stakeholder engagement

The STP industry working group recently met on 15 October 2020. The ASX provided members with an overview of progress on release 3 and a deeper dive on some of the new online forms and the new ISO 20022 event, including its associated support in CHES Replacement. Further meetings will be scheduled as key milestones are reached, including a review of member feedback on the draft usage guideline for the OTHR event.

It is expected the next significant communications to stakeholders will focus on the proposed listing rule changes consultation. The project team are also preparing an additional ASX Online for Companies training environment to provide issuers with a safe environment to preview the new and updated online forms and associated word forms. The environment will be available from November, with iterative updates as the forms are ready for review. The same environment was made available to issuers prior to the project’s first release in December 2019. In conjunction with the availability of the training environment, the team will also review and refresh the training and help material made available to issuers.

In early October, the owner of the project and representatives from ASX Listings Compliance met with the Governance Institute of Australia and a number of issuer members to discuss a number of the forms introduced in December, their usage and the associated listing rules and scenarios. This was a productive discussion, and demonstrated issuers’ keen interest in further developments in the online forms and access to early preview. Members were also invited to express their interest in joining the industry working group.

Committee	Business Committee
Agenda title	Annual Cash Equities Clearing and Settlement Reports
Item	4a
Purpose	To provide the Business Committee with ASX's annual compliance reports pursuant to the Regulatory Expectations
Meeting date	28 October 2020
Prepared by	Senior Manager, Equity Post Trade Services (Karen Webb) Chief Risk Officer (Hamish Treleaven)

COMPLIANCE REPORTS

The Regulatory Expectations for Conduct in Operating Cash Equity Clearing and Settlement Services in Australia (Regulatory Expectations) and ASX's Code of Practice, require ASX to publish annually:

- A cash equities clearing and settlement service developments report; and
- A report prepared by an external auditor on ASX's compliance with the Regulatory Expectations.

Annual Cash Equities Clearing and Settlement Service Development Report

In the Code of Practice, ASX committed to report annually on the cash equities clearing and settlement service developments and investment projects progressed during the year, and how the views of users were taken into consideration.

This is the fourth report published since the Council of Financial Regulators released the Regulatory Expectations. While the report and ASX activities are largely focused on ASX's consultation with industry as part of the CHES Replacement Project, the report also sets out other service enhancements conducted during the 2020 financial year.

The annual cash equities clearing and settlement service developments report is provided in Attachment A.

Annual External Regulatory Expectations Audit

In the Regulatory Expectations, there is a requirement for ASX to commission an annual external audit by an independent assurance firm of its governance, pricing and access arrangements benchmarked against the Regulatory Expectations. PWC has conducted the fourth audit of ASX's compliance with the Regulatory Expectations. The assurance report concluded that:

In our opinion, ASX has complied, in all materials respects, with the Regulatory Expectations as represented in the Compliance Framework for the year ended 30 June 2020.

PWC has presented its reasonable assurance assessment to ASX's Boards, and has been provided to the regulators. The audit report is provided in Attachment B for the information of Business Committee members.

As a result of the audit process, including the interviews with Business Committee members, PWC did not make any recommendations to ASX about possible enhancements to processes as part of its reasonable assurance report on compliance with Regulatory Expectations. PWC did note the following comments in its Detailed Findings, including insights provided during the interviews with Business Committee members, and the actions that ASX is undertaking that may address areas where respondents raised questions or concerns.

Detailed findings and ASX response

Feedback	ASX response
User input to governance	
<p>There were no formal recommendations made during the period as per the Business Committee Charter. A recommendation is defined by the Charter as a recommendation to the Clearing and Settlement Boards that has a broad consensus of those members present at the relevant Business Committee meeting. There were no formal recommendations that met this definition during the period, however, this definition does not allow for the consideration of recommendations from organisations that represent more than one clearing and settlement user.</p>	<p>In determining whether there is a “broad consensus”, ASX will have regard to whether the recommendation is supported by any member who is a representative organisation for clearing and settlement users, and who confirms that they are representing the views of those clearing and settlement users. This could be subject to confirmation by ASX, as appropriate, including to confirm the extent to which the recommendation is supported by a broad consensus of the organisation’s members.</p>
Transparent, non-discriminatory and fair and reasonable pricing	
<p>Business Committee members noted difficulties in planning for their own future capital expenditure as pricing information for the CHES replacement system is not yet available.</p>	<p>ASX will share its roadmap (activities and indicative timeline) of the pricing of clearing and settlement services available through the CHES replacement system with the Business Committee.</p>
Commercial, transparent and non-discriminatory access to CS services	
<p>From a sample of Business Committee members, one member noted a perception that unaffiliated market operator access to ASX clearing and settlement services is not materially equivalent to ASX access.</p> <p>....A Business Committee member noted their perception that access to clearing and settlement services was not provided on a materially equivalent basis.</p> <p>We understand from management they have determined that while ASX and unaffiliated market operators access CHES in different ways, the overall functionality is materially equivalent and ASX does not receive preferential treatment when processing trades.</p>	<p>ASX will continue the ongoing communication with unaffiliated market operators regarding current access to clearing and settlement services.</p>

ATTACHMENTS

Attachment A Annual Cash Equities Clearing and Settlement Service Development Report

Attachment B Annual External Regulatory Expectations Audit



Cash Equity Clearing & Settlement Services Developments

Annual Report

October 2020



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Cash Equity Clearing & Settlement Service Developments

Annual Report

October 2020

Executive Summary

This annual report has been prepared to explain the service developments and investment projects ASX has undertaken during the 12 month period to 30 June 2020 (FY20) for cash equity clearing and settlement services.

The most significant investment project – and the sustained focus of ASX over the past 12 months – has been the project to replace the CHES system using distributed ledger technology (DLT), addressed in Chapter 1 of this report. The Business Committee was briefed on developments with the project at each of its four meetings over the 12 month period.

In parallel, a number of smaller but important service enhancements to core cash equity clearing and settlement services have been delivered during the period. These enhancements are outlined in Chapter 2, along with planned future enhancements summarised in Chapter 3. Additionally, Chapter 3 provides an update on a number of other initiatives that have been progressed by ASX that provide benefits to the users of ASX's clearing and settlement services.

1. CHES Replacement project

The successful delivery of the CHES Replacement project requires ASX to complete several large streams of work. Key streams of work which commenced, concluded or were ongoing in the reporting period involving engagement with CHES users and other stakeholders are outlined below.

1. Stakeholder engagement:

- 1.1 On 25 March 2020, ASX announced that it was undertaking a replan for the CHES replacement project and that it would consult on a revised implementation timetable. On 30 June 2020 ASX released its [consultation paper](#), including a revised timetable to provide additional time for the ongoing impact of the COVID-19 pandemic on all stakeholders, accommodate functionality changes requested by users, and have a longer period for ASX and CHES users to complete their respective development and readiness activities. The consultation paper proposed a new target go-live date of April 2022, 12 months beyond the original target go-live. Written submissions from CHES users were due by 28 July 2020. ASX will shortly release its response to consultation feedback, which will set out the new implementation timetable and go-live date.
- 1.2 Ongoing engagement forums with CHES users include the Implementation & Transition Working Group and the Business Committee. Three engagement forums - the ISO 20022 Technical Committee, Connectivity & Integration working group and Focus groups on the new business requirements - concluded during the period, having met their stated objectives.
- 1.3 Bilateral meetings with customers, attendance at industry forums and demonstrations of the replacement technology.
- 1.4 ASX has also produced Factsheets for Participants, Issuers and Share Registries.
- 1.5 Comprehensive information about the project is also provided and regularly updated on the [CHES Replacement website](#).

2. **Project documentation.** The ASX CHES Replacement documentation portal went live in December 2018. The documentation for the functional and non-functional requirements for the replacement system has been made available to CHES users in tranches, usually three months prior to each incremental software drop into the customer development and test environment (CDE). The documentation includes the specification of the business processes, content and format of the global standard ISO 20022 messages to replace proprietary CHES messages, as well as connectivity information. Documentation for functional requirements was completed as at 30 June 2020. Since April 2020, ASX commenced publishing updates to the operational procedures and technical accreditation information, and this will continue through FY21.
3. **Delivery of code/functionality in CDE** for each of the software drops. As at 30 June 2020, seven functional releases into the customer development environment (CDE7) had occurred, representing 89% of the core clearing and settlement functionality for users. The delivery of technical documentation and subsequent software drops will continue through 2021.
4. **Rule amendments** required to support the new system. Various operating rule amendments are required to support the operation of the new system and reflect the solution design for new or changed functionality. Public consultation on the rule amendments is occurring in three tranches, with the status noted below:
 - Tranche 1 – completed, with these released for [public consultation](#) on 15 November 2019 and ASX's [response to consultation feedback](#) published 22 May 2020.
 - Tranche 2 – completed, with these released for [public consultation](#) on 21 February 2020 and ASX's [response to consultation feedback](#) published 24 September 2020.
 - Tranche 3 – timing subject to the outcome on the revised implementation timeline for the project following consultation undertaken in July. This final rules consultation process will cover the tranche 3 rule amendments and the consolidated rules package across all the rule amendments for the new system (i.e. as covered by the three tranches).

2. Other service enhancements

During the reporting period, ASX has progressed a number of incremental enhancements to CHES and/or associated processes and reports, and to the operating rules. The key enhancements related to core clearing and settlement services are summarised below.

- 2.1 Enhancements 1 & 2 - CHES Replacement business requirements progressed as business-as-usual service enhancements
- 2.2 Enhancement 3 – Improvements to processing within CHES and related systems for increased transaction volumes
- 2.3 Enhancement 4 – National Stock Exchange of Australia (NSX) use of Trade Acceptance Service (TAS)
- 2.4 Enhancement 5 – Other enhancements

2.1 CHES Replacement business requirements progressed as business-as-usual service enhancements

Two business requirements identified by the CHES Replacement Business Requirements Working Groups convened in 2017 (set out in ASX's Consultation Paper "[CHES Replacement: New Scope and Implementation Plan](#)" released April 2018) were progressed by ASX outside of the CHES Replacement project, as Business-As-Usual processes. This was on the basis that they are not dependent on the new system.

2.1.1 Transfers to the CHES Subregister

On 18 December 2019, the ASX Settlement Operating Rules were amended to streamline the process for effecting transfers to the CHES subregister for certain settlement participants that:

- are not ASX market participants (“settlement-only participants”); and
- are accredited as a “custodial settlement participant” (a new sub-class of settlement-only participant).

For these participants, the requirement was removed for the receipt and provision to the issuer of a transfer document signed by the holder (registrable transfer document) in order to effect the transfer of an issuer sponsored holding to a CHES holding controlled by the participant.

This aligns the processing of such transfers by custodial settlement participants with existing processing for settlement participants that are market participants.

Further information on those amendments (including additional requirements imposed on custodial settlement participants) is available in the market notices released by ASX on [2 December 2019](#) and [17 December 2019](#) in relation to the changes.

The amendments follow the release on 30 August 2019 of ASX’s [response to submissions](#) on its July 2018 Consultation Paper [“Transfers to the CHES Subregister”](#) in respect of the proposed changes.

As at 30 June 2020, 1 participant had been admitted as a custodial settlement participant. An additional participant was admitted in July 2020.

For the new system, ASX will also be seeking regulatory clearance for the removal of the above paper-based validation requirement for settlement-only participants that do not qualify for the streamlined processing under the BAU changes referred to above. This is on the basis that the SRN and registration details for a transferor will need to be included in a message from a participant seeking the transfer of securities from the issuer sponsored subregister to the CHES subregister and be validated by the issuer against holder details on the issuer sponsored subregister prior to processing the transfer. This will align the processing of transfers to the CHES subregister across all settlement participants.

2.1.2 Corporate actions – takeover offer

On 30 September 2019, the ASX Settlement Operating Rules were amended to enhance the existing process for acceptance of an off-market takeover offer (in respect of CHES holdings) where a holder’s takeover acceptance instructions are sent directly to the bidder (not the sponsoring participant for the CHES holding). These new processes reduce the risk of an entitled holder missing the takeover offer. The amendments provide for an indemnity to the bidder and holder against losses resulting from the sponsoring participant neither accepting or rejecting a participant bidder initiated message within 1 business day (which has the same outcome as a rejection, for which an indemnity currently exists).

Further information on those amendments is available in the market notices released by ASX on [30 August 2019](#) and [23 September 2019](#) in relation to the changes.

These amendments do not address another aspect of this business requirement which would have imposed an additional obligation on sponsoring participants to seek the relevant holder’s instructions when they receive a participant bidder initiated message, so as to be able to respond within 1 business day of receipt of that message on the basis of those instructions. ASX is not proceeding with this aspect at this time following feedback that this could create additional uncertainty, delay the processing of participant bidder initiated messages and lead to a higher rejection rate. Such an outcome would be contrary to the rationale for this business requirement of enhancing the existing process for acceptance of an off-market takeover offer and reducing the risk of an entitled holder missing a takeover offer.

2.2 Improvements to processing within CHES and related systems for increased transaction volumes

CHES has continued to meet its service availability commitments through FY20, with average monthly system availability at 100%, and Trade Acceptance Service average monthly service availability at 100%. In March 2020, the volume of transactions received by CHES consistently hit record days, peaking on 13 March with over 7 million trades processed. Associated total settlement instructions on 17 March (T+2) were 218% higher than the twelve month average. This did cause some processing delays within CHES. During this period, ASX provided updates via ASX System Status page and email notifications to CHES users on required extension to settlement and end of day session times. ASX Clear participants did not receive all CHES notifications for Friday, 13 March trades until Saturday, 14 March. The impact to participants was the requirement to delay their Friday night processing and their standard weekend procedures.

In line with its continual operational risk management program of work, ASX further upgraded its post trade infrastructure to add capacity for critical operational processes. This improves the ability to manage future elevated trade volumes. CHES queues have subsequently been eliminated or significantly reduced, with minimal backlogs for trade registration. These remediation activities and upgrades have increased the capacity and performance of ASX's post trade processing systems which has delivered benefits to the CHES End of Day overnight completion time, and significant reductions in transaction response times and in CHES queues. ASX is also continuing to undertake further enhancements to improve the capacity of the CHES and related systems, including upgrading hardware, implementing system processing efficiencies and tuning databases. As part of its Service Performance update to the quarterly Business Committee meetings, ASX provides details of managing capacity within CHES and related systems.

Additional details can be found in the [ASX Market Notice](#) dated 22 September 2020.

2.3 National Stock Exchange of Australia (NSX) use of Trade Acceptance Service (TAS)

The TAS was developed in 2010 by ASX to allow trades executed on non-ASX affiliated Approved Market Operator's (AMOs) trading platforms to be cleared and settled by ASX on the same basis as trades executed on ASX's cash equity market.

In July 2018, ASX Clear received an application from NSX for access to the TAS for clearing and settlement of trades executed on the NSX cash equity market. ASX and NSX have progressed readiness for NSX's access to the TAS on a number of areas including regulatory, clearing risk, operational and technical readiness.

3. Future planned enhancements & other initiatives

ASX publishes a quarterly Market Notice to advise of technology upgrade releases planned for the next 6 to 12 months across the various customer facing platforms, including CHES. At this time, there are no scheduled enhancements planned for FY21 for core clearing and settlement functionality in CHES.

However, as outlined in item 2.2 above, ASX will continue to undertake further enhancements to improve the capacity of the CHES and related systems.

ASX is also pursuing a number of initiatives that provide benefits to the users of ASX's clearing and settlement services. The availability of electronic CHES Holding Statements and the Corporate Actions STP Phase 2 project are included in the forward work program for the Business Committee and are outlined below.

3.1 CHES Holding Statements – Electronic delivery option

ASX maintains the CHES sub-register as the sole source of truth for legal ownership of broker sponsored securities. Investors who hold securities on the CHES sub-register will be allocated a Holder Identification Number or HIN. Each month, ASX sends investors a CHES Holding Statement if there has been any changes to the balance of securities held under the investors HIN. The CHES Holding Statement serves the important purpose of notifying investors of changes in their HIN account balances, providing security and certainty in a formal statement from the ASX.

Historically, physical CHESS Holding Statements have been mailed to investors. From Q1 2021, ASX is targeting to provide an option for investors to elect to receive statements electronically. In addition, investors will be provided with access to a secure portal allowing them to access historical statements. Investors will elect to use the electronic option through their brokers.

ASX widely consulted on this change as part of its April 2018 CHESS Replacement consultation and has engaged with stakeholders regularly since then. Moving to electronic delivery will result in immediate savings to issuers (who pay for the statements) where their investors have elected to move to electronic delivery. They will also deliver a more secure, faster and convenient method of delivering CHESS Holding Statements to investors. Eliminating printing and postage is also more environmentally sustainable.

3.2 Improvements to the announcement and processing of corporate actions – Corporate Actions STP Phase 2 project

In November 2018, ASX released a consultation paper *'Simplifying, clarifying and enhancing the integrity and efficiency of the ASX listing rules'* across a broad range of proposed changes to the ASX listing rules. ASX's response to the submissions received was published in October 2019, and the rule changes became effective on 1 December 2019. The changes were grouped into a number of themes, including the following themes relevant to issuer announcements and corporate actions:

- making the rules simpler and easier to follow;
- making aspects of the listing process and ongoing compliance with the listing rules more efficient for issuers and for ASX; and
- updating the timetables for corporate actions.

From these themes, the relevant changes included:

- Amending the listing rules to deal with announcements of new issues and applications for quotation of securities in new forms to replace the existing Appendix 3B, with those forms to ultimately become "smart" online forms.
- A number of changes to the timetables for corporate actions in Appendices 3A, 6A and 7A of the listing rules to make them clearer and easier to follow.
- To address deferred settlement trading where possible following feedback from the CHESS Replacement Settlement Enhancements Working Group.

The changes to the listing rules were integrated with the work being undertaken by ASX's Corporate Actions STP Phase 2 project to deliver the digitisation or straight through processing (STP) of corporate action event notifications - from the ASX listed issuer's announcement using new smart online forms through to producing standardised, data rich dissemination in the form of an ISO 20022 format real time product. The project, in consultation with a dedicated industry working group, is reviewing every type of corporate action announced by issuers or offerors to implement STP where possible. During the FY20 period, the project achieved the following changes:

- In December 2019, in line with the listing rule changes, a number of new forms available in online or MS Word format were introduced, including the new Appendix 3B, Appendix 2A, Appendix 3G, and Appendix 4A. The project also made enhancements to four existing online forms for the announcement of certain corporate actions to accommodate listing rule timetable changes.

Work completed or scheduled for delivery during FY21 includes:

- In July 2020, the project delivered the implementation of upgraded and new ISO 20022 notification messages to cover all corporate action events supported by ASX (except one – scheduled for March 2021) available to subscribers by FTP (file transfer protocol) or SWIFT. CHESS Replacement will also be a consumer of the ISO 20022 notification messages, as the source of truth for all corporate action event information. A number of existing online and MS Word forms were also upgraded with further enhancements, including the addition of

further information requested by industry representatives. The release also included the implementation of a change that was requested by the ASX CHESS Replacement working group – to generate and publish an ISIN to represent the entitlement in a non-renounceable offer.

- The final release by the project is targeted for March 2021 – to introduce additional online forms (in place of MS Word forms) and implement STP from the issuer announcement through to ISO 20022 notification for a further five corporate action events. The release will also implement the event data capture and ISO 20022 notification for one remaining event. Additional enhancements will also be introduced for issuers on the issuer announcement portal.



The Directors
ASX Limited
Exchange Centre, 20 Bridge Street
SYDNEY NSW 2000

Reasonable assurance report on compliance with the Regulatory Expectations as represented in ASX Settlement Pty Limited and ASX Clear Pty Limited's (ASX) Compliance Framework

Independent Assurance Report

Opinion

We have been engaged by ASX Limited on its own behalf and on behalf of its subsidiaries ASX Operations Pty Ltd, ASX Settlement Pty Ltd and ASX Clear Pty Ltd (together collectively referred as the Client Entities) to undertake a reasonable assurance engagement in relation to ASX's compliance, in all material respects, for the year ended 30 June 2020, with:

- the Regulatory Expectations for the Conduct of Cash Equity Clearing and Settlement Services in Australia issued by the Council of Financial Regulators (CFR) in October 2016 and revised in September 2017 (the Regulatory Expectations) as represented in ASX's Compliance Framework which comprises the ASX Code of Practice and related policies and procedures listed in Appendix B (together the Compliance Framework).

In our opinion, ASX has complied, in all material respects, with the Regulatory Expectations as represented in the Compliance Framework for the year ended 30 June 2020.

Description and findings of the reasonable assurance procedures

Appendix A to this report includes description of the reasonable assurance procedures performed, detailed findings and recommendations from those procedures. Appendix B contains ASX's Compliance Framework and supporting documents.

Basis for Opinion

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* issued by the Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

ASX's Responsibilities

ASX is responsible for:

- a) The compliance activity undertaken to meet the Regulatory Expectations; and
- b) Identification of risks that threaten the compliance with the Regulatory Expectations identified above being met and controls which will mitigate those risks and monitor ongoing compliance.



Our Independence and Quality Control

We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*, the firm maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Assurance Practitioner's Responsibilities

Our responsibility is to express an opinion on ASX's compliance, in all material respects, with the Regulatory Expectations as represented in the Compliance Framework for the year ended 30 June 2020. ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether ASX has complied, in all material respects, with the Regulatory Expectations as represented in the Compliance Framework, for the year ended 30 June 2020.

An assurance engagement to report on ASX's compliance with the Regulatory Expectations involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the Regulatory Expectations. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance with the Regulatory Expectations as represented in the Compliance Framework.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the inherent limitations of any internal control structure it is possible that fraud, error, or non-compliance with compliance requirements may occur and not be detected. Additionally, there is a certain level of subjectivity within the subject matter as represented in the Regulatory Expectations. A reasonable assurance engagement throughout the year ended 30 June 2020 does not provide assurance on whether compliance with the Regulatory Expectations will continue in the future.

Matters relating to the electronic presentation of ASX's Compliance Framework

This assurance report relates to the compliance of ASX with the Regulatory Expectations as represented in ASX's Compliance Framework for the year ended 30 June 2020 (compliance subject matter). The Client Entities are responsible for their website and its integrity and we do not accept responsibility for any changes that may have occurred to the compliance subject matter information or ASX's Compliance Framework since they were presented on the Client Entities' website as at the date of this report. We have not been engaged to report on the integrity of this website. The assurance report refers only to ASX's Compliance Framework applicable as at the date of this report. It does not provide an opinion on any other information which may have been hyperlinked to/from ASX's Compliance Framework or to/from the Client Entities' website.



Restricted Use

This report was prepared for use by the Directors, officers and employees of the Client Entities to assist ASX in addressing the Regulatory Expectations. We disclaim any assumption of responsibility for any reliance on this report by any other person, or for any purpose other than that for which it was prepared.

PricewaterhouseCoopers

PricewaterhouseCoopers
by

A handwritten signature in black ink, appearing to read 'D Chesler' with a stylized flourish below the name.

Deanna Chesler
Partner

Sydney
14 September 2020



Description and findings of the reasonable assurance procedures

The table below includes a description of the reasonable assurance procedures performed, detailed findings and recommendations from those procedures.

#	Regulatory expectation	Procedures	Detailed Findings	Management Response
1(a)	ASX should make an explicit public commitment to investing promptly and efficiently in the design, operation and development of the core CS infrastructure for the Australian cash equity market, including the Clearing House Electronic Sub-register System (CHES) and any future replacement system. This commitment should be supported by governance processes that enable users to provide input on the setting of the investment strategy. Investments should ensure that, to the extent reasonably practicable, the performance, resilience, security and functionality of the core CS infrastructure meet the needs of users, recognising the diversity and differing needs of users. At a minimum, the core CS infrastructure should accommodate internationally accepted communication procedures and standards.	<p>1. Examined the Code of Practice published on ASX's website.</p> <p>2. Enquired with management about the governance process that allows Business Committee members to provide input into the strategy. Examined the minutes of ASX Clear Pty Limited and ASX Settlement Pty Limited Boards (together ASX CS Boards).</p> <p>3. Examined the Business Committee and Technical Committee minutes on a sample basis for the year ended 30 June 2020 as published on ASX's website as well as the latest Business Committee Charter dated April 2019 for evidence of opportunities for members to provide input and ask questions.</p> <p>4. Examined the Business Committee minutes to ensure that internationally accepted communication procedures and standards are being considered within the Clearing and Settlement infrastructure.</p>	<p>1. The Code of Practice includes an explicit public commitment: "ASX will invest in the ongoing operation and development of the core cash equities Clearing and Settlement infrastructure promptly and efficiently. Such investments will seek to meet the needs of users, recognising the diversity and differing needs of users". ASX has committed to replacing CHES with a "modern application that offers global standard messaging, better performance, improved security and data management, and expanded connectivity options".</p> <p>2. The governance process includes the Business Committee, the Technical Committee (who reports to the Business Committee), a number of Working Groups (Connectivity and Integration; Implementation and Transition), a number of focus groups and a number of ad hoc public consultations. Business Committee papers include summaries (including attendees) of the Technical Committee meetings, Working Group meetings and the public consultations. The ASX CS Boards receive a summary of the Business Committee meetings including recommendations made by the Business Committee members.</p> <p>3. The Business Committee Charter outlines the role of the Business Committee and the procedures for sharing agendas, supporting papers and minutes of meetings. We noted that in the minutes of the Business Committee and Technical Committee meetings sampled for testing, members were invited to provide input and ask questions.</p>	<p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
			4. The Business Committee was updated on the ISO 20022 Financial Services Universal Financial Industry Message Scheme Technical Committee's progress in developing the new message standards, which encompassed updates on Phase 1 event ISO 20022 messages, as well as Phase 2 Corporate Action events.	Not applicable.
1(b)	ASX should ensure that the membership of its user governance arrangements is representative of the user base of its CS services, and that members are able to have a strong input into the agenda and format of meetings or other user governance mechanisms and the setting of priorities.	<p>1. Examined the composition of the Business Committee on ASX's website, considered the ASX's Clearing and Settlement customer base and assessed it against the Business Committee members' composition to identify how ASX considers different users' needs.</p> <p>2. Enquired about ASX's procedure to review the Business Committee composition on a periodic basis. Obtain evidence that the Business Committee composition was reviewed in the period.</p> <p>3. Obtained and examined on a sample basis the emails sent to Business Committee members with agenda, supporting papers and minutes of Business Committee meetings.</p> <p>4. Interviewed a sample of Business Committee members and enquired about whether they had an opportunity to input into the agenda of Business Committee meetings.</p>	<p>1. The Business Committee has 30 members (excluding the ASX-appointed Chair), including 18 clearing and settlement participants, 4 other market operators (including 1 ASX member), 6 independent industry associations representing clearing and settlement participants and custodians, and 2 registry providers. Participants include large institutional brokers and smaller retail brokers.</p> <p>2. The Business Committee composition is reviewed on an annual basis to ensure it is representative of ASX's user base. The latest change was the addition of a member from ASX (Trading Services).</p> <p>3. Business Committee meeting agendas and associated papers were sent to Business Committee members, on average, 7 days before the Business Committee meeting dates which is consistent with the Business Committee Charter. Management informed us that the Business Committee members can use this notice period to provide input into the agenda. We examined a sample email that was sent to the Business Committee Chair from a member, requesting an agenda item for an upcoming meeting and noted that it was agreed to be discussed at a later date.</p> <p>The draft minutes are circulated by email to the Business Committee members for their review and comment.</p> <p>The agendas we examined included a standing item for discussion of previous meeting minutes with Business</p>	<p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
			<p>Committee members.</p> <p>Management informed us that users are able to provide input into the priorities through the Business Committee, Technical Committee, Working Groups, focus groups, and public consultations as described in point 2 under section 1a.</p> <p>We have examined 2 Business Committee papers, which included Cash Equity Clearing & Settlement Services Developments Annual Report, Corporate Action STP Phase 2 Project, and updates on the CHES replacement project, with the purpose of each paper being clearly communicated.</p> <p>4. A sample of Business Committee members were interviewed and noted they were invited to suggest additional agenda items for upcoming Business Committee meetings.</p> <p>Business Committee members noted that there were limited opportunities to provide inputs in meetings as the topics for discussion were mainly completed phases of the CHES replacement project rather than future developments. However, from our review of the Business Committee Meeting agendas throughout the period we note there is a standing agenda item “Forward Plan of Work” at every meeting for discussion of future developments.</p>	Not applicable.
1(c)	ASX should demonstrate that it has had regard to the views of members in setting the terms of reference for the external audits of its governance, pricing and access arrangements carried out in accordance with the Regulatory Expectations. This may take the form of members’ non-objection of the proposed terms of reference. These	<p>1. Examined the Terms of Reference and the Business Committee minutes dated July 2020.</p> <p>2. Interviewed a sample of Business Committee members and enquired about whether they had an opportunity to comment on the proposed terms of reference</p>	<p>1. The Regulatory Expectations External Audit Terms of Reference were presented to the Business Committee for their comments during the July 2020 Business Committee meeting and were included in the Business Committee papers sent to members ahead of the meeting.</p> <p>2. A sample of Business Committee members were interviewed and noted that the proposed terms of</p>	<p>Not applicable.</p> <p>Not applicable.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
	terms of reference may change following any review of the Regulatory Expectations.	and service for the assurance engagement.	reference and service for the assurance engagement were presented to them during the year. The minutes of the July meeting indicated that there were no objections.	
1(d)	<p>ASX should maintain accountability arrangements that provide for regular public attestations as to the effectiveness of its interactions with users. For example, the following arrangements would be appropriate:</p> <p>(i) ASX's user governance mechanisms operate on a 'comply or explain' basis; that is, the relevant Board would take actions in accordance with recommendations from the user governance mechanisms, or else explain why such actions had not been taken.</p> <p>(ii) ASX report, on at least an annual basis, the service developments and investment projects that it has progressed and how it has taken into consideration the views of users.</p>	<p>1. Examined a sample of Business Committee member recommendations from Business Committee meeting minutes and assessed if they were addressed in subsequent Business Committee meeting minutes.</p> <p>2. Interviewed a sample of Business Committee members and enquired about whether they have made any recommendations to the Business Committee and if so, if they were acted on or explained.</p> <p>3. Enquired with management on the progress of the report in relation to the service developments and investment projects and examined the 19 September 2019 Business Committee agenda and papers.</p> <p>4. Reviewed the complaints register regarding any complaints made in relation to user input to governance</p>	<p>1. There were no formal recommendations made during the period as per the Business Committee Charter. A recommendation is defined by the Charter as a recommendation to the Clearing and Settlement Boards that has a broad consensus of those members present at the relevant Business Committee meeting. There were no formal recommendations that met this definition during the period, however, this definition does not allow for the consideration of recommendations from organisations that represent more than one clearing and settlement user.</p> <p>2. A sample of Business Committee members were interviewed and noted feedback had been shared with ASX at the Business Committee meetings, and outside of the Business Committee meetings. In some cases, they believed their feedback was not acted on or explained. We note that there is not a requirement for ASX CS Boards to respond to general feedback on a "comply or explain" basis.</p> <p>3. The annual report on service developments and investment projects titled 'Cash Equity Clearing & Settlement Services Developments September 2019' was presented to the Business Committee in September 2019. This was corroborated through inspection of the</p>	<p>In determining whether there is a "broad consensus", ASX will have regard to whether the recommendation is supported by any member who is a representative organisation for clearing and settlement users, and who confirms that they are representing the views of those clearing and settlement users. This could be subject to confirmation by ASX, as appropriate, including to confirm the extent to which the recommendation is supported by a broad consensus of the organisation's members.</p> <p>Not applicable.</p> <p>Not applicable.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
			meeting minutes. 4. There were no formal complaints recorded in the period in relation to ASX's user input to governance for clearing and settlement services.	Not applicable.
1(e)	ASX should formally commit to retaining a Board structure for ASX Clear and ASX Settlement that comprises a minimum of 50 percent of non-executive directors that are also independent of ASX Limited, and where a subset of these independent directors can form a quorum.	<p>1. Examined the Code of Practice.</p> <p>2. Examined the composition and resumes of ASX Limited, ASX Clear Pty Limited and ASX Settlement Pty Limited Directors as published on ASX's website.</p> <p>3. Examined ASX's Board Charter as published on ASX's website.</p> <p>4. Examined a sample of ASX's Boards meeting minutes.</p>	<p>1. The Code of Practice includes an explicit public commitment to retain a Board structure for ASX Clear Pty Limited and ASX Settlement Pty Limited with a minimum 50% of non-executive directors that are also not Directors of ASX Limited. The Code of Practice also provides that ASX ensures non-executive directors can form a quorum to be able to consider competitively sensitive information provided by another market operator.</p> <p>2. The ASX Clear Pty Limited and ASX Settlement Pty Limited Boards comprise at least 50% Non-Executive Directors. Mr. Stephen Knight, Mr. Adrian Todd, and Ms. Carolyn Colley are Independent, Non-Executive Directors of ASX Clear Pty Limited and ASX Settlement Pty Limited, who are not on the ASX Limited Board. There are three other Directors on the ASX Clear and ASX Settlement Boards that are also on the ASX Limited Board, Mr. Ken Henry, Mr. Peter Marriott, and Mr. Dominic Stevens.</p> <p>3. The ASX Clearing and Settlement Boards Charter was updated in November 2017. The Charter states that "The ASX Clear and ASX Settlement boards have been constituted such that they comprise at least 50% of directors not also on the ASX CS Boards. These directors can form a quorum to consider competitively sensitive information acquired in the course of providing clearing and settlement services to another market operator or listing venue", which is in accordance with the Regulatory Expectations.</p>	<p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
			4. ASX's Directors discuss at each Board meeting individual Director's interests and potential conflicts.	Not applicable.
1(f)	ASX should establish governance structures and reporting lines at the management and operational levels that promote access to its CS services on commercial, transparent and non-discriminatory terms. These arrangements should ensure that the interests of users are upheld in accordance with Regulatory Expectation 3. This may be demonstrated, for example, through the key performance indicators set for relevant management.	<p>1. Enquired about ASX's governance and reporting lines for Clearing and Settlement services.</p> <p>2. Enquired with management and examined a sample of ASX's senior executives' balanced scorecards (KPIs).</p>	<p>1. Enterprise Compliance and Internal Audit are headed by General Managers, who are responsible for reporting to the Board. Enterprise Risk Management is headed by a General Manager that reports to the Chief Risk Officer, who is responsible for reporting to the Board.</p> <p>2. Employee balanced scorecards promote access to its CS services on commercial, transparent and non-discriminatory terms.</p>	<p>Not applicable.</p> <p>Not applicable.</p>
2(a)	<p>ASX should ensure that all prices of individually unbundled CS services, including rebates, revenue-sharing arrangements and discounts applicable to the use of these services:</p> <p>(i) are transparent to all users of the services</p> <p>(ii) do not discriminate in favour of ASX-affiliated entities, except to the extent that the efficient cost of providing the same service to another party was higher</p> <p>(iii) are made available to stakeholders in a form such that the impact of pricing changes can be readily understood.</p>	<p>1. Examined the Clearing, Settlement and Issuer Administration Service Schedule of Fees dated July 2018 (the latest version).</p> <p>2. Selected a sample of ASX invoices issued to various users to test whether Clearing and Settlement prices charged are in accordance with prices published on ASX's website for the year ended 30 June 2020.</p> <p>3. Interviewed a sample of Business Committee members and enquired about whether the prices of individually unbundled Clearing and Settlement services, including rebates, revenue-sharing arrangements and discounts have been made available to them and are understandable.</p> <p>4. Reviewed the complaints register regarding any complaints made in relation to ASX's pricing for clearing and settlement</p>	<p>1. ASX prices are transparent as they are published on the website. The detail of the fees for ASX services is also included in the invoices sent to customers.</p> <p>2. The prices for the clearing and settlement services as included in the sample of invoices tested were consistent with the prices published on ASX's website Clearing, Settlement and Issuer Administration Service Schedule of Fees effective from 1 July 2019 to 30 June 2020 (Noted that there was no change of price during the period).</p> <p>3. A sample of Business Committee members were interviewed and noted that pricing, including rebates, revenue-sharing agreements and discounts have been made available to members and are understandable.</p> <p>4. There were no formal complaints recorded in the period in relation to ASX's pricing for clearing and settlement services.</p>	<p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
		services.		
2(b)	ASX should maintain an appropriate method for determining the prices of its CS services so as to generate expected revenue that reflects the efficient costs of providing those services, including a return on investment commensurate with the commercial risks involved.	<p>1. Examined the Enterprise Wide Pricing Framework dated January 2017 to ensure that it includes documentation on the method for determining the prices of its Clearing and Settlement services.</p> <p>2. Examined the 2019 and 2020 cash market clearing and settlement management income statement audit reports to inspect whether these are unqualified.</p> <p>3. Examined the latest independent benchmarking report (2016) issued by Oxera on ASX Clearing and Settlement Services' costs.</p>	<p>1. ASX's method to determine the prices of its clearing and settlement services is documented in its Enterprise Wide Pricing Framework. There have been no changes to the EWPF during the period.</p> <p>2. ASX cash market clearing and settlement management income statement is subject to an annual external audit under Australian Auditing Standards. PwC issued unqualified audit reports for the cash market clearing and settlement management income statement for the years ended 30 June 2019 and 30 June 2020.</p> <p>The notes to these audited reports include ASX methodology for the internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia.</p> <p>3. In 2014 ASX commissioned Oxera, an independent economics consultancy firm, to benchmark ASX clearing and settlement services' costs against the costs of using the services provided by financial market infrastructure providers in other countries. The overall conclusion was that "when taking into account the scale of trading, the costs of post-trading services in Australia are in line with the costs of similar services provided in financial centres of a comparable size." An update to this report was commissioned in 2016 and the findings were consistent with the 2014 report.</p>	<p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p>
2(c)	ASX should make an explicit public commitment that any changes in the prices of its CS services will not be implemented in a way that would materially shift revenue streams	<p>1. Examined the Code of Practice published on ASX's website.</p> <p>2. Examined the listing of Clearing and Settlement prices effective from July 2019 to</p>	<p>1. The Code of Practice includes an explicit public commitment that "ASX Clear and ASX Settlement will not implement price changes with the purpose of materially shifting revenue streams between other</p>	<p>Not applicable.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
	between aspects of its trading, clearing and settlement services.	<p>June 2020.</p> <p>3. Examined the 2019 and 2020 cash market clearing and settlement management income statement audit reports to inspect whether these are unqualified.</p>	<p>trading, clearing and settlement services”.</p> <p>2. There were no changes to clearing and settlement prices during the year from 1 July 2019 to 30 June 2020.</p> <p>3. Refer to section 2.b.2) above for the results of PwC’s audit of the cash market clearing and settlement management income statement.</p>	<p>Not applicable.</p> <p>Not applicable.</p>
2(d)	ASX should publish any increases in its CS fee schedules along with an attestation justifying their reasonableness. For the most material such increases, this attestation would be expected to refer to relevant metrics and other evidence, such as the calculated return on equity, benchmarked price lists, or an independent review of how ASX’s cash equity CS fees compare with those of CS facilities in other markets.	<p>1. Examined the listing of Clearing and Settlement prices effective from July 2019 to June 2020.</p> <p>2. Interviewed a sample of Business Committee members and enquired about pricing changes and whether they were supported by reasonable explanations in line with regulatory expectations.</p> <p>3. Enquired of management in relation to ASX’s future pricing methodology for the CHES replacement system.</p>	<p>1. There were no changes to clearing and settlement prices during the year from 1 July 2019 to 30 June 2020.</p> <p>2. A sample of Business Committee members were interviewed and confirmed there were no pricing changes during the year.</p> <p>Business Committee members noted difficulties in planning for their own future capital expenditure as pricing information for the CHES replacement system is not yet available.</p> <p>3. ASX does not expect to increase fees to participants for like-for-like clearing and settlement services available through the CHES replacement system. ASX noted the pricing of clearing and settlement services is subject to a process of review by Regulatory Agencies before it can be shared with Business Committee members and clearing and settlement users.</p>	<p>Not applicable.</p> <p>ASX will share its roadmap (activities and indicative timeline) of the pricing of clearing and settlement services available through the CHES replacement system with the Business Committee.</p> <p>Not applicable.</p>
2(e)	ASX should maintain an appropriate model for the internal allocation of costs, including the cost of allocated capital, as well as policies to govern the transfer of prices between the relevant ASX Group entities. Compliance with	<p>1. Examined ASX’s internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia.</p> <p>2. Examined the 2019 and 2020 cash market</p>	<p>1. ASX’s internal cost allocation and transfer pricing policy is published on ASX’s website and includes ASX’s internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia.</p>	<p>Not applicable.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
	the model and policies would be expected to be subject to internal audit review. The model and policies should be based on reasonable cost allocation principles. For example: (i) where possible, costs should be directly allocated to the service(s) which give rise to those costs (ii) shared costs should be allocated based on appropriate and transparent metrics.	clearing and settlement management income statement audit reports to inspect whether these are unqualified.	2. Refer to section 2.b.2) above for the results of PwC's audit of the cash market clearing and settlement management income statement.	Not applicable.
2(f)	ASX should negotiate commercially and in good faith with unaffiliated market operators and CS facilities regarding fees and other financial contributions charged for any extensions to its monopoly CS services, and in particular those provided under the existing Trade Acceptance Service and the Settlement Facilitation Service.	1. Enquired with management about extensions to existing services entered into during the audited period.	1. No new extensions of service or new services entered into during the period.	Not applicable.
3(a)	ASX should have objectives for its CS services that include an explicit public overarching commitment to supporting access to its CS services on commercial, transparent and non-discriminatory terms. ASX should maintain standard user terms and conditions that are consistent with these objectives, taking into account the legitimate business interests of ASX and any parties seeking access to its CS services.	<p>1. Examined the Code of Practice as published on ASX's website.</p> <p>2. Examined ASX's Trade Acceptance Service (TAS) and Settlement Facilitation Service (SFS) terms and conditions as published on ASX's website.</p> <p>3. Examined ASX's Operating Rules as published on ASX's website as well as the internal procedure for amending Operating Rules.</p>	<p>1. The Code of Practice includes the following comment: "ASX is committed to providing access to clearing and settlement services on transparent and non-discriminatory terms, and we will respond to requests for access in a fair and timely manner".</p> <p>2. TAS and SFS agreements contain standard user terms and conditions that provide for ASX to grant non-discriminatory access to its clearing and settlement services:</p> <p>i) Of comparable quality to the services provided to ASX</p> <p>ii) In accordance with applicable laws, rules and procedures</p>	<p>Not applicable.</p> <p>Not applicable.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
			<p>iii) Without discriminating in relation to clearing and settlement participants on the basis of where the trade was affected or reported.</p> <p>3. ASX Operating Rules incorporate the standard terms and conditions applicable to all users of ASX's clearing and settlement Services. ASX's internal procedure for amending operating Rules include a requirement to consult with ASIC prior to any change.</p>	Not applicable.
3(b)	Service level agreements should commit ASX to providing access to its CS services for unaffiliated market operators and CS facilities on operational and commercial terms and service levels that are materially equivalent to those that apply to ASX as a market operator or CS facility.	<p>1. Examined ASX's TAS and SFS terms and conditions as published on ASX's website and listed in section 3a).</p> <p>2. Interviewed a sample of Business Committee members and enquired about whether the ASX had adhered to their published protocols i.e. providing access to unaffiliated market operators and CS facilities on operational and commercial terms and service levels that are materially equivalent to those that apply to ASX as a market operator or CS facility.</p> <p>3. Investigated any claims made by Business Committee members that access to clearing and settlement services was not provided on a materially equivalent basis to unaffiliated market operators.</p>	<p>1. TAS and SFS agreements contain standard user terms and conditions that provide for ASX to grant non-discriminatory access to its clearing and settlement services:</p> <p>i) Of comparable quality to the services provided to ASX</p> <p>ii) In accordance with applicable laws, rules and procedures</p> <p>iii) Without discriminating in relation to clearing and settlement participants on the basis of where the trade was affected or reported.</p> <p>2. From a sample of Business Committee members, one member noted a perception that unaffiliated market operator access to ASX clearing and settlement services is not materially equivalent to ASX access.</p> <p>3. As identified in step 2 above, a Business Committee member noted their perception that access to clearing and settlement services was not provided on a materially equivalent basis.</p> <p>We understand from management they have determined that while ASX and unaffiliated market operators access CHES in different ways, the overall</p>	<p>Not applicable.</p> <p>Not applicable.</p> <p>ASX will continue the ongoing communication with unaffiliated market operators regarding current access to clearing and settlement services.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
			functionality is materially equivalent and ASX does not receive preferential treatment when processing trades.	
3(c)	ASX should publish and adhere to protocols for dealing fairly and in a timely manner with requests for access. These protocols should include reasonable timeframes for responding to enquiries and arrangements for dealing with disputes. Nothing in the protocols should affect either party's right to refer a dispute to arbitration by the ACCC once the arbitration regime is implemented.	<ol style="list-style-type: none"> 1. Examined ASX's Operating Rules, TAS and SFS terms and conditions as published on ASX's website and listed in section 3a). 2. Examined TAS and SFS agreement as published on ASX's website to assess whether the template includes a protocol for dealing with disputes. 3. Examined AMO and ALMO access request procedures as published on ASX's website. 4. Examined ASX Cash Equities Clearing and Settlement Code of Practice - Access Protocols as published on ASX's website. 5. Interviewed a sample of Business Committee members and enquired about whether the ASX had adhered to their published protocols i.e. dealing fairly and in a timely manner in relation to requests for access to cash equity clearing and settlement services, where relevant. 	<ol style="list-style-type: none"> 1. Refer to section 3a) above for review of the standard user terms and conditions that provide for ASX to grant non-discriminatory access to its clearing and settlement services. 2. Clause 43 of the Trade Acceptance Service Legal Terms and Clause 13 of the Settlement Facilitation Service Agreement sets out dispute resolution processes. 3. Individual access request procedure documents for AMOs and ALMOs set out target timeframes for ASX to respond to access requests from AMOs and ALMOs. 4. ASX Cash Equities Clearing and Settlement Code of Practice - Access Protocols include target timeframes for dealing with access requests as well as dispute resolution arrangements. 5. A sample of Business Committee members were interviewed and noted there were no new requests in relation to access to cash equity clearing and settlement services during the period. 	<p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p>
3(d)	ASX should make an explicit commitment to ensuring that any investments in the systems and technology that support its cash equity CS services do not raise barriers to access from unaffiliated market operators or CS facilities. Announcements of any material investments in the systems and technology that support ASX's cash equity CS services should be	<ol style="list-style-type: none"> 1. Examined the Code of Practice as published on ASX's website. <p>Enquired with management about material investments in the systems and technology that support ASX's cash equity Clearing and Settlement services.</p> <ol style="list-style-type: none"> 2. Examined the consultation process on the rule amendments involving three tranches of 	<ol style="list-style-type: none"> 1. The Code of Practice includes a commitment by ASX to "ensure "its investments in the systems and technology that support its cash equities clearing and settlement infrastructure are not designed in such a way as to raise barriers to access to other market operators or clearing facilities". 2. ASX has been engaging with regulators in relation to the rules and other relevant regulatory aspects that need to be addressed to support any new or changed 	<p>Not applicable.</p> <p>Not applicable.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
	<p>accompanied by a public attestation that those investments will be designed in a way that does not raise such barriers.</p>	<p>amendment during the financial period. This is in addition to the consultation paper titled 'ASX CHESS Replacement: New Scope and Implementation Plan' published in April 2018.</p> <p>3. Enquired with management on the future access to clearing and settlement services for unaffiliated market operators in the CHESS replacement system, to understand if investments in the systems and technology that support its cash equity CS services raise barriers to access by unaffiliated market operators.</p>	<p>services and functionality for the new system, including their consultation process on the rule amendments involving three tranches of amendments:</p> <p>The first of three tranches of operating rule amendments relate to accounts, participants, securities and pre-settlement aspects for Day 1 CHESS replacement system functionality.</p> <p>The second of three tranches relate to corporate actions, mFund and RTGS payment aspects for 'Day 1' implementation of CHESS replacement system functionality. RTGS will support payments for corporate actions involving entitlement acceptances as well as payments for bilateral demand settlement instructions.</p> <p>Consultation on the tranche 3 draft rule amendments is proposed for early November 2020.</p> <p>3. Management noted that all approved market operators will be required to connect to the new Clearing and Settlement Platform using the same FIX Gateway as ASX.</p>	<p>Not applicable.</p>



#	Regulatory expectation	Procedures	Detailed Findings	Management Response
3(e)	ASX should retain, and periodically review, its standards for the handling of sensitive or confidential information. Consistent with governance arrangements that promote access on commercial, transparent and non-discriminatory terms (see Regulatory Expectation 1(e)), these arrangements should ensure that conflict sensitive information pertaining to the strategic plans of unaffiliated market operators or CS facilities is handled sensitively and confidentially, and cannot be used to advance the interests of ASX as a market operator or CS facility.	<ol style="list-style-type: none"> 1. Reviewed the Conflict Handling Arrangements policy dated December 2018 published on ASX's website. 2. Reviewed the Information Handling Standard published on ASX's website. 3. Reviewed the complaints register regarding handling of information and determined if there were any complaints made in relation to confidentiality and sensitive information, or transparent and non-discriminatory access to ASX's clearing and settlement services. 	<ol style="list-style-type: none"> 1. The Conflicts Handling Arrangements policy includes a specific paragraph on cash equity clearing and settlement services, which references Information Handling Standards in place to manage commercially sensitive information provided to ASX by other licensed listing and trading venues. 2. ASX's Information Handling Standard provides for: <ol style="list-style-type: none"> i) Protection of AMO's confidential and sensitive information ii) Access to sensitive information is restricted to appropriate ASX employees. 3. There were no formal complaints recorded during the period in relation to confidentiality and sensitive information, or transparent and non-discriminatory access to ASX's clearing and settlement services. 	<p>Not applicable.</p> <p>Not applicable.</p> <p>Not applicable.</p>



ASX's Compliance Framework and supporting documents

The table below includes the policies, procedures and other documents which we referred to within our report that form part of the Compliance Framework.

Compliance framework supporting document	Date	Hyperlink
Regulatory Expectations	September 2017	https://www.cfr.gov.au/publications/policy-statements-and-other-reports/2016/regulatory-expectations-policy-statement/pdf/policy-statement.pdf
Code of Practice	May 2017	http://www.asx.com.au/cs/documents/asx-code-of-practice.pdf
Business Committee Meetings - agendas, papers, minutes and Business Committee reports to the ASX Boards	Various version dates as applicable as at the date of this report	http://www.asx.com.au/cs/business-committee-meetings.htm
ISO 20022 Technical Committee Meetings	Various version dates as applicable as at the date of this report	https://www.asx.com.au/services/iso20022-technical-committee.htm
Clearing and Settlement Boards Charter	November 2017	http://www.asx.com.au/documents/asx-compliance/CS-Board-Charter.pdf
Business Committee Charter	April 2019	https://www.asx.com.au/cs/documents/charter-of-the-business-committee.pdf
Business Committee Role and Membership details	As applicable as at the date of this report	http://www.asx.com.au/cs/business-committee.htm



Compliance framework supporting document	Date	Hyperlink
ASX Boards' members details	As applicable as at the date of this report	http://www.asx.com.au/about/asx-clearing-settlement-boards.htm
CHESS Replacement: Summary of Stakeholder Engagement	June 2020	Not on ASX's website
CHESS Replacement Updates	Various dates	https://www.asx.com.au/services/chess-replacement.htm#ISO20022TechnicalCommittee
2014 Oxera report: 'Global cost benchmarking of cash equity clearing and settlement services'	June 2014	http://www.asx.com.au/cs/documents/Global_cost_benchmarking_of_cash_equity_clearing_settlement_services_Final_20Jun14.pdf
2016 Oxera report: 'Global cost benchmarking: review of price lists'	April 2016	Not on ASX's website
Audited 'Cash Market Clearing and Settlement management income statement' - 2020	June 2020	Not on ASX's website
ASX internal cost allocation and transfer pricing policy between ASX group entities for clearing and settlement of cash equities in Australia	As applicable as at the date of this report	http://www.asx.com.au/cs/documents/cost_allocation_policy.pdf
Audited 'Cash Market Clearing and Settlement management income statement' - 2019	June 2019	https://www.asx.com.au/cs/financial-statements.htm
Enterprise Wide Pricing Framework	January 2017	Not on ASX's website



Compliance framework supporting document	Date	Hyperlink
Clearing, Settlement and Issuer Administration Services Schedule of Fees	July 2018	https://asxonline.com/content/dam/asxonline/public/documents/schedule-of-fees/clearing-settlement-and-issuer-administration-services-schedule-of-fees.pdf
CHESS Replacement Tranche 1 Rule Amendments Consultation Paper	November 2019	https://www.asx.com.au/documents/public-consultations/chess-replacement-tranche1-rule-amendment.PDF
CHESS Replacement Tranche 2 Rule Amendments Consultation Paper	February 2020	https://www.asx.com.au/images/resources/Tranche2ConsultationPaperandAttachments.PDF
ASX Trade Acceptance Service (TAS) – Legal Terms	August 2018	https://www.asx.com.au/cs/documents/final-trade-acceptance-service-legal-terms-20180820.pdf
Settlement Facilitation Service (SFS) Agreement	March 2014	http://www.asx.com.au/documents/settlement/Settlement_Facilitation_Service_Agreement_Template.pdf
ASX Cash Equities Clearing and Settlement Code of Practice - Access Protocols	July 2017	http://www.asx.com.au/cs/documents/COP-Access-Protocols-1-7-17.pdf
Procedures for Access Requests by Approved Market Operators (AMOs)	July 2017	http://www.asx.com.au/cs/documents/AMO-Procedures-for-Access-Requests.pdf
Procedures for Access Requests by Approved Listing Market Operators (ALMOs)	July 2017	http://www.asx.com.au/cs/documents/almo-procedures-for-access-requests.pdf
ASX's Conflict Handling Arrangements	December 2018	https://www.asx.com.au/documents/about/asx_conflict_handling_arrangements.pdf
Information Handling Standard	May 2018	Not on ASX's website



Compliance framework supporting document	Date	Hyperlink
Regulatory Expectations External Audit Terms of Reference	July 2020	Not on ASX's website
Enterprise Compliance Uplift Plan	July 2020	Not on ASX's website
CHESS Replacement AMO Overview	Various dates	https://asxchessreplacement.atlassian.net/wiki/spaces/CSP/pages/106660878/AMO+Overview
ASX Operating Rules	Various dates	https://www.asx.com.au/regulation/rules/asx-operating-rules.htm

Committee	Business Committee
Agenda title	Minutes from 22 July 2020 Business Committee Meeting
Item	5a
Purpose	To provide Business Committee members with the minutes and Business Committee report to the ASX Boards from the 22 July 2020 meeting
Meeting date	28 October 2020
Prepared by	Business Committee Chair, Deputy CEO (Peter Hiom)

OVERVIEW

Draft minutes and the draft report to the Boards of ASX Clear and ASX Settlement from the 22 July 2020 Business Committee meeting were emailed to all members of the Business Committee on 13 August 2020 for comment. The Secretariat received one comment from a member and a change to the initial draft circulated to members is marked-up.

The Business Committee report and minutes will be formally presented to the next meeting of the ASX Clear and ASX Settlement Boards.

ATTACHMENTS

Attachment A Business Committee Report and Minutes from the 22 July 2020 Meeting.



Business Committee Report to the Boards of ASX Clear and ASX Settlement

Business Committee Meeting

At its 22 July 2020 meeting, the Business Committee was updated on:

- the operating performance of CHES for the June Quarter 2020;
- CHES replacement, including industry consultation on the revised implementation timeline;
- the Corporate Actions STP Phase 2 project;
- the completion of the work of the ISO 20022 Technical Committee in developing the new message standards; and
- the upcoming external audit of ASX's compliance with regulatory expectations.

KEY ISSUES DISCUSSED

Members were briefed on recent progress with the CHES replacement project, particularly the releases of software code into the customer development environment (CDE), current levels of testing activity, the progress of rule amendments for the new system, and stakeholder engagement. Questions were raised by stakeholders in respect of third party assurances, user readiness and connectivity, and the proposed pricing structures for the CHES Replacement system.

There was also significant focus and discussion in respect of the industry consultation on the revised CHES replacement implementation plan. ASX communicated the changes to the CHES implementation timetable and the associated changes to the functionality available from the go-live date. Members raised some questions around impacts on timing for delivery of certain functionality, and noted the uncertainty of the current business environment and the potential for further business disruption caused by external factors such as COVID-19 as well as regulatory reform coming out of the Royal Commission findings.

ASX will continue to monitor the situation in the market and will consider any key issues in this respect that are raised by members through the consultation process for the revised implementation timeline. ASX will balance these considerations with the need to provide the certainty that the market requires to prepare resource scheduling.

Agreed Actions

The single action item raised at the last meeting (relating to working with an industry association member to facilitate more effective engagement with the issuer community) was noted. ASX confirmed that an issuer facts sheet in relation to the CHES replacement project was issued to around 2500 members of the issuer community on 23 June 2020. ASX also noted that there is ongoing engagement with GIA and others in relation to the CHES project. ASX is intending to meet with an industry association member in respect of this action item when possible.

No new action items were raised at the July meeting.

Minutes from the meeting are attached.

Agenda

Business Committee

Date	22 July 2020	Time	12:00pm – 2:00pm
Location	By Skype		
1. Service Performance			12:00pm-12:15pm
a) Cash Market Clearing and Settlement - Operating Performance			
2. CHES Replacement Project			12:15pm-1:15pm
a) CHES Replacement			
– Application			
– Infrastructure and ledger			
– Integration and reporting			
– Rules and regulatory engagement			
– Stakeholder engagement			
– Transition, cutover and system accreditation			
b) Industry consultation on revised implementation timeline			
c) ISO 20022 Technical Committee report and minutes			
3. Service Enhancements			1:15pm-1:30pm
a) Update on the Corporate Actions STP Phase 2 project			
4. Regulatory Expectations – External Audit			1:30pm-1:40pm
a) Update on the upcoming external audit of ASX's compliance with the regulatory expectations			
5. Administration			1:40pm-1:55pm
a) Minutes from the 8 April 2020 Business Committee Meeting			
b) Forward work program			
c) Other matters			
6. Next Meeting – 23 September 2020			

Business Committee Members

Company	Name	Job Title	Apologies
ABN AMRO Clearing	Matthew McMahon*	Head of Operations Australia	Barry Parker, Chief Executive Officer
AFMA	Damian Jeffree*	Director of Policy and Professionalism	David Lynch, Chief Executive Officer
ASX	Peter Hiom	Business Committee Chair, Deputy CEO	
AIRA	Ian Matheson	Chief Executive Officer	
ACSA	Rob Brown	Chief Executive Officer	Rob Brown
ASA	Fiona Balzer	Policy & Advocacy Manager	
Automic	Paul Williams	Managing Director	
BAML	Rhys Cahill	Global Markets COO	
Bell Potter Securities	Rodd Kingham	Head of Operations - Transformation	Rodd Kingham
BNP Paribas	Mark Wootton	Head of Custody Product Aust & NZ	
Chi-X Australia	Mike Aikins	Chief Operating Officer	
Citi	Miles O'Connor	Director, Direct Custody & Clearing Securities & Funds Services	
CMC	Andrew Rogers	Director of Broking Business	Andrew Rogers
CBA (CommSec)	Sheridan Thompson	Head of Strategic Development	
Computershare	Scott Hudson	Head of Intermediary Services	
Credit Suisse	Winston Loke	Australia Equities COO	
Deutsche Bank AG	Geoffrey Plaisted	Chief Operating Officer, Equities	
Goldman Sachs	Yen Le	Executive Director	
GIA	Megan Motto	Chief Executive Officer	
HSBC	Nichole Alexander	Manager, Aust Market Advocacy & Development	
J.P. Morgan	Jonathan Evans	Head of Custody & Markets Operations	
Macquarie Group	James Indge	Cash Equities Business Manager	James Indge
Morgan Stanley	Rebecca Hill	Chief Operating Officer	
Morgans	Peter Chisholm	Manager, Transactional Services & Settlement Systems	
NAB	Michael Doyle*	Senior Consultant Credit & Risk, NAB Equity Lending	Anita Mead, Head of Business Management, Self-Directed Wealth
NSX	John Williams*	Head of Admissions	Matthew Loughnan, Chief Executive Officer
Pershing Securities	Leigh Conder	Chief Operating Officer	
SAFAA	Judith Fox	Chief Executive Officer	
Sydney Stock Exchange	Antony Tolfts	Director – Market Supervision & Listing Compliance	
UBS	Conor Foley	Chief Operating Officer	

* Delegate

ASX Management

Name	Job Title	Apologies
Tim Hogben	Chief Operating Officer	
Daniel Moran	General Counsel	
Hamish Treleaven	Chief Risk Officer	
Cliff Richards	Executive General Manager, Equity Post Trade Services	
Dan Chesterman	Chief Information Officer	
Val Mathews	Executive General Manager, Operations	
Sally Palmer	Deputy General Counsel	
Katie McDermott	General Manager, Equity Post Trade Services	
Diane Lewis	Senior Manager, Regulatory and Public Policy	
Karen Webb	Senior Manager, Equity Post Trade Services	
Keith Purdie	Senior Manager, Equity Post Trade Services	
Andrew Jones	General Manager, Strategic Partnerships	
Con Korkofigas	Senior Legal Counsel & Senior Manager	
David Raper	Executive General Manager, Trading Services	

Observers

Name	Job Title	Apologies
Nathan Bourne	Senior Executive Leader, Market Infrastructure (ASIC)	
Dodie Green	Senior Manager, Market Infrastructure (ASIC)	
Greg Yanco	Executive Director, Markets (ASIC)	

Invited

Name	Job Title	Apologies

INTRODUCTION

The Chair welcomed members and delegates to the meeting.

There were apologies from Rodd Kingham (Bell Potter Securities), Rob Brown (ACSA) and Andrew Rogers (CMC). Four other members were represented by delegates, Matthew McMahon (ABN AMRO), Damian Jeffree (AFMA), Michael Doyle (NAB) and John Williams (NSX). ASIC (Nathan Bourne, Dodie Green, Greg Yanco) attended the meeting as observers.

AGENDA ITEM 1: SERVICE PERFORMANCE

The ASX Executive General Manager, Operations shared an update on the operating performance of CHES for the months of April, May and June 2020.

- This quarter contained levels of activity that are more consistent with historical activity associated with this quarter of the financial year.
- Daily average trade value of \$7.5 billion and a cleared value of \$4.9 billion
- Increased corporate actions throughout the quarter have impacted netting efficiency (at 98.49% down from 99%).
- The settlement failure rate for the June quarter was down marginally from the last quarter (March) but this is still up from the average trend from 2011.
- For the month of July 2020 to date, the average failure rate has been sitting at 0.189% which reflects a return to 'normal' levels.

ASX is working with regulatory agencies and regularly providing settlement data to ensure there are no systemic issues.

From a systems perspective, all systems have remained operating and available during the June quarter, with no delays or performance challenges and 100% availability.

Following the impact of recent market volatility and increased volumes in the March quarter, ASX have been actively improving the capacity and performance of CHES and note that there are further improvements through infrastructure upgrades planned in the short to medium term. The current capacity of CHES is around 6 million trades per day as a safe repeatable volume. ASX is looking at increasing this later in the year to 7 – 7.5 million transactions per day.

ASX will continue to engage with stakeholders on this topic and will keep them abreast of progress in enhancing systems in the lead-up to CHES replacement.

There were some questions and comments from members on the performance report:

- A member asked if ASX could confirm whether references to failure rates for certain securities related to failures in capital raisings of the issuers of those securities. The Chair noted that the references to failure rates was not a failure of the capital raising activity, but related to failure of participants to transfer the relevant stock for settlement in time, given the high demand for that capital raising.
- A member noted to the Committee that it is important for Participants to be kept updated on any clearing and settlement capacity issues across the market to assist Participants in assessing their own trading volumes having regard to the overall capacity of the market as required by ASIC. The ASX Chief Operating Officer indicated it was working on the principles of notifications to market participants and will provide an update in the coming weeks on the types of levers available to manage such capacity aspects.

AGENDA ITEM 2: CHES REPLACEMENT PROJECT

a) CHES Replacement – Program Update

ASX updated the Committee on the status of each of the CHES replacement workstreams, noting that ASX is currently consulting on a revised implementation timetable, which would be addressed in the following agenda item. The ASX General Manager, Equity Post Trade Services, provided the following updates:

Application design and build, infrastructure and ledger

- ASX have now released 7 of 10 functional releases into the customer development environment (CDE), with around 30 organisations connected and undergoing testing, including AMO testing of FIX functionality.
-
- The CDE environment now has 89% of core clearing and settlement functionality.
- During this period, the third instalment of the APGs was also published in the Technical Documentation.
- ASX's development and testing of CDE8 is continuing,
- Development of the CHES user interface is also continuing, including the incorporation of additional customer functionalities.
- A demo of CHES UI to external stakeholders is scheduled for next week.

Integration and Reporting

- Two out of five share registry end of day reports have now been delivered.
- The remaining reports will be dropped into the CDE environment in drop 8 and 9.

Stakeholder engagement

Since the last Business Committee meeting:

- ASX held three Implementation and Transition working groups since the last Business Committee meeting. The working group held in April focused on the revised implementation timetable. The working group held in May focused on the industry test environment, a walkthrough of the publication of APG documentation, and an update on the adjacencies with corporate actions STP project.. The working group held in July focused on the consultation paper and answered questions submitted through the working group. ASX noted that webinar recordings of the Implementation and Transition working groups are available on the ASX website.
- Another Connectivity and Integration working group was held in May. This is intended to be last C&I working group – however if there are requests from users, another working group may be held on relevant topics. ASX noted that presentation material of the Connectivity and Integration working group are available on the ASX website.
- A session was held with payment providers in June.
- ASX has continued its issuer engagement workstream by publishing an 'issuer factsheet ' on the CHES replacement project.

Transition, cutover and system accreditation

- To progress the customer readiness stream, ASX is providing messaging accreditation scripts throughout 2020. Connectivity accreditation scripts and operational readiness test scripts will also be provided by the end of this year

An ASX Senior Manager/Senior Legal Counsel provided an update on the following:

Rules and regulatory engagement

- Consultation on the first tranche of operating rule amendments is now complete. ASX released its response to consultation feedback on 22 May 2020. This response contained a summary of feedback received in stakeholder submissions, as well as ASX's response to this feedback, and the draft rule changes made to the ASX Settlement Operating Rules and Procedures and ASX Clear Operating Rules and Procedures, which take into account feedback received.
- The tranche two consultation period closed on 29 May 2020. ASX received 11 submissions from a range of stakeholders. ASX is working towards providing a response to feedback in mid-September 2020 and will engage with regulators in the usual course. ASX's response to feedback received is proposed to follow a similar format to tranche one.

- The third tranche of rule amendments was due to have been released for consultation in April 2020 – however was suspended until after stakeholder consultation on the revised CHES replacement implementation timetable is complete. The timing for the consultation on the tranche 3 rule amendments (as well as a consolidated rules package across all the rule amendments) forms part of that consultation on the revised timetable and will be addressed as part of the next agenda item on that consultation.

Members raised questions in respect of the CHES replacement updates:

- A member noted that there are a number of unknowns around pricing, capacity and connectivity, and queried whether this is indicative of there being an issue with the technology. The ASX Executive General Manager, Equity Post Trade Services confirmed that there is no issue with the underlying technology, and that ASX is currently working through responses to questions received from the Implementation and Transition working group in respect of pricing, capacity and connectivity,. The ASX Executive General Manager, Equity Post Trade Services noted that pricing information will be provided to the market at least 12 months in advance of the go live date. ASX noted that the technology was subject to regulatory oversight through standards that apply to ASX. In respect of capacity requirements, ASX noted that the system is being built with the ability to scale for growth over time.
- A member queried whether third party assurance should be sought in respect of CHES replacement and whether this will be provided to stakeholders. The Chair noted that third party security reviews have previously been conducted and will be undertaken again in the future prior to the new system going live – however, the results of these reviews have not been made public for security reasons. The ASX Chief Information Officer noted that a third party will be involved in conducting additional negative tests on performance and other non-functional characteristics of the system.
- A member asked ASX to confirm if pricing will be released 12 months before the go-live date. The ASX Executive General Manager, Equity Post Trade Services confirmed that pricing will be released and communicated no later than 12 months prior to the go-live date.
- A member noted the reference in the update to 34 organisations being connected to the CDE, and asked if this constituted all required participants. The ASX Executive General Manager, Equity Post Trade Services noted that the 34 organisations are not all participants but comprise third party system vendors who service multiple participants. The member queried whether there is any vendor that is not connected at this stage or is potentially at risk of not meeting the go-live date? The ASX Executive General Manager, Equity Post Trade Services noted that there may be some vendors in this position, but that they are in the minority in terms of number and percentage of market activity. ASX reinforced that CDE is the customer development environment so there no requirement for customers to be connected to CDE at this stage. The requirement to connect will come later in the ITE phase (as opposed to CDE). ASX noted that user readiness is a key focus of ASX and it is tracking everyone’s progress.
- A member asked if there has been any development on the clearing and settlement pricing structure that ASX can share. The ASX Executive General Manager, Equity Post Trade Services noted that it is still seeking to achieve an outcome that no participant will be worse off as a result of any pricing change, and will be speaking with participants prior to finalising.

b) Industry consultation on revised implementation timeline

ASX made a public announcement on 25 March 2020 advising that it would be consulting in June on the timeline for implementation of CHES replacement.

ASX noted that the proposed revised implementation timetable provides CHES users with an additional 12 months to prepare for the CHES replacement system, with a revised go-live date of April 2022. The consultation on the revised timetable will be a four week consultation, asking all CHES users to provide their feedback and respond to the questions in the consultation paper so that ASX have a view of the ability of users to meet the revised timetable. The deadline for written submissions is Tuesday 28 July 2020.

The ASX Executive General Manager, Equity Post Trade Services and an ASX Senior Manager/Senior Legal Counsel talked the Business Committee through the revised implementation timetable at a high level, noting the following key points:

- **Software Development (CDE):** three more CDE releases are to occur (code drops 8, 9, 10).
- **Software Provider Readiness (ITE1):** an additional 5.5 months will be made available for system testing – this reflects key feedback received around limiting parallel activities required by stakeholders
- **Customer Readiness (ITE2):** this environment will now be opening from April 2021. The revised table gives users five months instead of one month for completion of development for settlement production. It also provides more time to complete internal testing, and removes some of the overlaps previously existing with other activities.
- **Cutover and Transition:** there remain three planned dress rehearsals. The go-live attestation has been pushed back by three months.
- **Operating Rule Amendments:** ASX has proposed a final round of consultation covering tranche three rule amendments as well as a consolidated rules package across all the rule amendments including tranches 1 and 2 as revised following earlier consultation processes. This consultation is due to commence in early November 2020 and allow a 15 week consultation period. ASX plans to formally lodge the combined rules package in August 2021 and, pending regulatory clearance, the final set of rules will be released by end of September 2021.

ASX noted that in developing the revised timetable, ASX has carefully considered feedback on timing and readiness provided by the market.

ASX noted that a key element of the revisions to the timetable involve the concept of a “release version 1.1” that will be deployed after the go-live date, and which will contain features that are non-batch DvP bilateral settlement, electronic DRP and BSP elections and DRP enquiry, electronic acceptance of entitlement offers, and electronic payment for entitlement offers. ASX noted that these features will not be available in ITE1 or ITE2. The rationale for delaying these features is that the delay will simplify the timeline of activities required by stakeholders from the first day following the go-live date. The decision to delay these features also takes into account feedback received from stakeholders.

The ASX Executive General Manager, Equity Post Trade Services took the Committee through the questions that stakeholders are required to respond to as part of the consultation paper and asked if any members had any comments on these. A number of individual members expressed their views on the proposed consultation:

- A member asked if, for the functionality to be available after day 1 through the subsequent version 1.1. release, it will be mandatory for all participants to be able to support that functionality from when it is introduced. The ASX Executive General Manager, Equity Post Trade Services advised that that was correct.
- The same member asked about the timing for introduction of that version 1.1 release. ASX advised that it depends on the feedback received, but that it expected to be 3 to 12 months after day 1 however this would be considered further based on the consultation feedback.
- Another member noted that the 12 month extension is welcome from the industry’s perspective and that the implementation timeframe is clear and well set out in the consultation documentation. This member noted the uncertainty of the current environment and asked how dynamic ASX is prepared to be in respect of the need for further potential timeline changes, and whether ASX is comfortable that enough contingency exists in the revised timetable to allow for further external impacts without the need for further changes to the timetable. The Chair noted that ASX had made assumptions based on the current cadence of working and noted the need to be able to give some certainty as to timing, and that the purpose of the first question in the consultation paper is to allow ASX to determine the answers to these questions. The answers to these questions will enable ASX to see from a participant’s perspective whether there exists enough contingency to allow for participants to account for further disruption.
- The same member asked what mechanisms are in place to ensure broad and deep consultation with stakeholders on the ability to work with the revised timeline given the uncertainty that some businesses face in the current economic environment. The Chair noted that the focus of the consultation is on the practical matter of replacing the CHES system for the clearing and settlement of equities. The uncertainty that

businesses in the real economy is not related to whether CHES Users operating in financial markets are able to undertake their readiness activities to connect to the replacement clearing and settlement system.

- A member noted the extremely large amount of current regulatory reform due to the Royal Commission, and the resulting uncertainty for the business as to whether they will have capacity for technology teams to complete the items required for CHES replacement within the new timeline. ASX noted that question 3 of the consultation paper seeks to explore these types of constraints. The Chair noted that ASX will continue to monitor issues in the market and will listen to issues that need to be raised by stakeholders – recognising that CHES Users have also asked for a level of certainty around the timeline.
- Another member requested ASX's views on incorporating new innovations or workflows into existing CHES system prior to the new system release. The Chair noted that ASX remains open to all innovation ideas, but that it is difficult to provide a definitive answer on the ability to incorporate innovations into the existing CHES system and the impact that this would have on CHES Users without having been provided with the specific innovation in mind.

The ASX General Manager, Strategic Partnerships provided an overview of the proposed pricing methodology for the new system, noting that there are two elements for pricing:

- **Clearing and settlement pricing:** ASX does not currently intend to increase prices for participants. ASX is currently mapping some pricing, and have taken 423 CHES EIS messages down to 106 ISO20022 messages.
- **Access to CHES:** ASX provided indicative access pricing in September 2019. CHES can be accessed in four different ways. Access charges for a standard Ledger API connection would have been \$495 per month but this will be waived for 3 years for participants. ASX will confirm Ledger API connection pricing for other service providers, like share registries, later this year, but noted that the pricing of this channel will be aimed to not disincentive use. ASX confirmed that should service providers continue to use the AMQP connection, this will also cost \$495 per month.

The ASX General Manager, Strategic Partnerships noted that the fact sheet provided to Issuers previously shows that ASX is not intending to increase pricing on like-for-like services.

A member asked about the current pricing proposals in respect of electronic CHES holding statements and relevant timeline for implementation moving to the end of the year. The ASX General Manager, Strategic Partnerships noted that pricing for electronic CHES holding statements would reflect the lower cost of preparing and issuing electronic statements as compared to paper statements. ASX noted that the exact pricing model will be subject to consultation with the regulatory agencies and that ASX will come back to stakeholders later in the year on this point. ASX also noted that it is working to achieve a go live date for e-statements at the end of 2020.

c) ISO 20022 Technical Committee Report and Minutes

The ASX Chief Operating Officer noted that the last Technical Committee meeting was held on 7 April 2020 and that this marked the completion of this workstream. It was noted that the ISO 20022 workstream commenced in 2014, and has involved more than 30 meetings of the Technical Committee as well as a number of external consultations.

ASX referred to the table contained in the relevant agenda paper that outlines the items that were to be completed and noted that all items have been actioned and achieved.

ASX thanked all participants of the Technical Committee for the work completed and actions achieved through this workstream.

AGENDA ITEM 3: SERVICE ENHANCEMENTS

a) Update on the Corporate Actions STP Phase 2 project

An ASX Senior Manager, Equity Post Trade Services provided a refresher of the purpose of the STP Phase 2 Project and provided an update on the project:

- Since the last Business Committee meeting, the focus has been on preparation for the second major release, which occurred on the weekend of 18-19 July 2020. The release was implemented successfully, and was a

significant milestone for the project, achieved through ASX working in collaboration with industry stakeholders and the CHES replacement team.

- The release included the implementation of the full suite of corporate action notifications in ISO 20022 format. The old ISO 20022 production service will be decommissioned within the next month.
- Work has already commenced on the third and final release scheduled for March 2021. The focus of this release will be to introduce full STP for additional corporate action events (including making additional online forms available to issuers). The release will provide issuers with a full suite of forms for capital issue and change related announcements and additional functionalities. Will also benefit ASX's own operations.

ASX noted that a revised delivery timeline has been developed which takes into account a number of factors, including CHES replacement deliverables, development activities of existing ISO 20022 subscribers and the remaining scope of work. Under the revised timetable, the implementation date for release three has been postponed from September 2020 to March 2021.

The ASX Senior Manager, Equity Post Trade Services confirmed that the industry working group will continue to meet as required (noting that the most recent catch up was earlier in July 2020), and that ASX will continue to keep stakeholders updated on progress.

A member referred to an event tracking dashboard referenced in the agenda paper and queried whether the event tracking dashboard was intended to apply to all corporate actions. The ASX Senior Manager, Equity Post Trade Services confirmed that this is the case, and noted that the intention is that for any announcement for a corporate action event, ASX will provide key feedback through the portal on items for that event and any reminders. The same member also asked if the dashboard is proposed to provide information as to the number of holders that have signed up to a DRP. ASX advised that this was not the purpose of the dashboard which focussed on ASX monitoring from a compliance perspective.

AGENDA ITEM 4: REGULATORY EXPECTATIONS – EXTERNAL AUDIT

The ASX Chief Risk Officer provided the Business Committee with a brief overview of the background to the FY2019-2020 'Regulatory Expectations' External Audit. ASX noted that PwC will conduct the external audit and that PwC will use the direct interview approach to conduct the audit. ASX noted that PwC will seek to select a group of Committee members to be interviewed, however if any member of the Business Committee would like to be interviewed, they are invited to indicate their intention of involvement to PwC as soon as possible using the details provided in the agenda paper. ASX referred Business Committee members to Attachment A to the agenda paper (titled "Terms of Reference") which sets out the approach to the external audit and the regulatory expectations to be satisfied by ASX. Committee members were asked to familiarise themselves with the paper before participating in the interview so as to ensure that the audit process is conducted in an efficient and effective manner.

Members had no questions in respect of the external audit.

AGENDA ITEM 5: ADMINISTRATION

a) Minutes from the 8 April 2020 Business Committee Meeting

The minutes of the 8 April 2020 meeting were approved without further change to those noted in the meeting pack.

b) Forward work program

The Chair noted feedback received by ASX from members at an earlier date relating to the frequency of Business Committee meetings. The Chair asked the Business Committee members for their views on whether meetings should be held on a more frequent basis and noted that views could be provided to ASX now or at a later date.

One member advised that they were satisfied with the current frequency of Business Committee Meetings.

A member asked when ASX will release feedback received from stakeholders on the revised implementation timeline. The Chair noted that this will depend on the feedback received and that further information will be provided once the consultation period has closed.

c) Other matters

There were no other matters raised by members of the Business Committee.

AGENDA ITEM 6: NEXT MEETING

The next meeting is currently scheduled for 23 September 2020.

The meeting closed at 1.56pm.

Signed as a correct record of the meeting.

Chair

Date

Committee	Business Committee
Agenda title	Forward work program
Item	5b
Purpose	To update Members on the forward work program of the Business Committee for 2020
Meeting date	28 October 2020
Prepared by	Business Committee Chair, Deputy CEO (Peter Hiom)

It is proposed to convene one further meeting of the Business Committee in 2020:

- 7 December 2020

Subject to any input from members who wish to suggest additional items, the forward work program of the Business Committee in 2020 will be predominately focused on CHES replacement: documentation, test environments, implementation timetable and CHES user readiness activities.

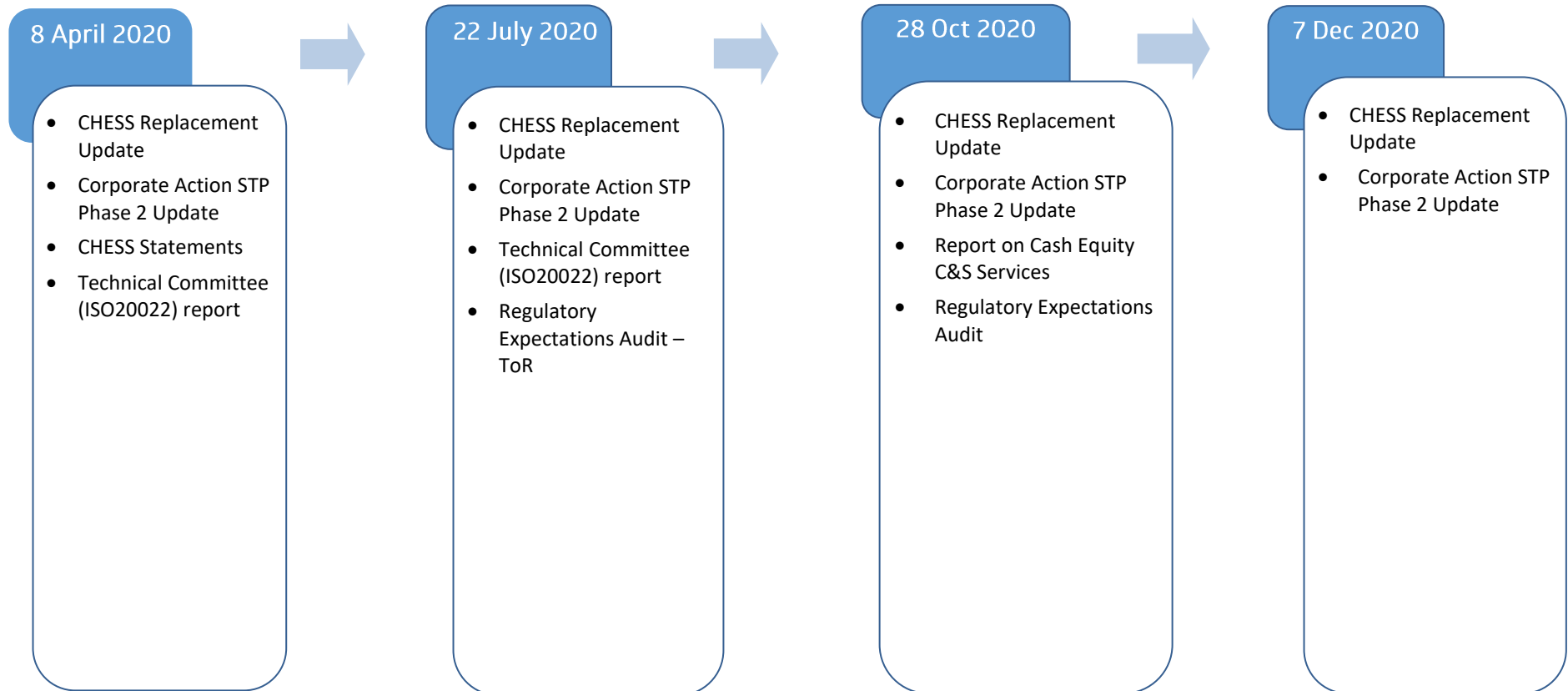
A second major stream of work will be Corporate Action STP Phase 2. The Corporate Actions STP Phase 2 industry working group draws on a range of stakeholders and is expected to run until March 2021.

Members of the Business Committee are invited to suggest topics for inclusion in the forward work program at any time by contacting the Business Committee Secretariat.

ATTACHMENTS

Attachment A Business Committee Forward work program

Attachment A: Business Committee Forward work program



Note: the forward work program does not include the standing agenda items for each meeting.