



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

## Business Committee Meeting

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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		
<b>1. Service Performance</b>			12:00pm-12:15pm
a) Cash Market Clearing and Settlement - Operating Performance			
<b>2. CHES Replacement Project</b>			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			
<b>3. Service Enhancements</b>			1:15pm-1:30pm
a) Update on the Corporate Actions STP Phase 2 project			
<b>4. Regulatory Expectations – External Audit</b>			1:30pm-1:40pm
a) Update on the upcoming external audit of ASX’s compliance with the regulatory expectations			
<b>5. Administration</b>			1:40pm-1:55pm
a) Minutes from the 8 April 2020 Business Committee Meeting			
b) Forward work program			
c) Other matters			
<b>6. Next Meeting – 23 September 2020</b>			

## 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	
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.
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- 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.



15 December 2020

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Chair

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Date