

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

## Business Committee Meeting

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At its 13 July 2022 meeting, the Business Committee was updated on:

- the operating performance of CHES for the June quarter 2022
- the CHES replacement project, including updates on project progress, the replan of project timelines, customer contingency planning, operating rule amendments and an update on the assurance program
- electronic CHES holding statements, including a change to paper statements, a new process to notify participants of returned mail and an update on take-up of electronic statements; and
- the upcoming external audit of ASX's compliance with the regulatory expectations

### KEY ISSUES DISCUSSED

Computershare was reappointed as a member, an outcome from ASX's annual review of Committee membership.

Members were briefed on ASX's approach to re-planning a new go-live date for CHES replacement, with questions around the timetable for stakeholder input and concurrency of CHES user readiness activities. ASX also provided a high-level introduction on how it was considering contingency planning in the event a CHES user was not ready for go-live, with interest from members about whether the scenario planning would also contemplate issues with the CHES replacement system and how ASX would engage more broadly with stakeholders. There were questions and discussions on software provider readiness tracking presented by ASX during industry testing. EY attended to discuss their second independent assessment of ASX's assurance program report and to answer members' questions which included the timing for when external stakeholders will be consulted as part of the assurance program, and any metrics EY were putting around their assessment on the maturity of the program.

An update was provided on the trajectory for the take-up of electronic CHES holding statements and the new returned mail solution for paper statements.

The Committee was reminded that PwC would shortly commence its annual external audit of ASX's compliance with the regulatory expectations.

An update was also provided on the consultation paper released by ASX in June 2022 on market management in response to ASIC's Report 708.

### AGREED ACTIONS

There were no new actions raised at the meeting.

Draft minutes from the meeting are attached.



ASX

# Agenda

## Business Committee

Date	13 July 2022	Time	12:00pm- 2:00pm
Location	ASX offices – Level 1, 20 Bridge Street, Sydney		
<b>1. Minutes and Actions</b>			12:00pm- 12:20pm
a) Minutes from the 13 April 2022 Business Committee Meeting			
Open actions			
<b>2. Service Performance</b>			12:20pm- 12:30pm
a) Cash Market Clearing and Settlement - Operating Performance			
<b>3. CHES Replacement</b>			12:30pm- 1:30pm
a) Project progress update			
b) Project timeline and milestones			
c) Contingency planning			
d) CHES replacement operating rule amendments			
e) Assurance program update			
<b>4. Service Enhancements</b>			1:30pm- 1:40pm
a) Electronic CHES holding statements			
i. Paper statement change			
ii. New efficient process to notify participants of returned mail			
iii. Update on electronic statements take up			
<b>5. Regulatory Expectations – External Audit</b>			1:40pm-1:50pm
a) Update on the upcoming external audit of ASX’s compliance with the regulatory expectations			
<b>6. Other Matters</b>			1:50pm- 2:00pm
a) Forward work program			
b) AOB			
c) Next meeting – 5 October 2022			

## Action Items\*

\*For historical action items please refer to archived minutes [here](#).

Item number#	Action	Due date	Status	Owner
2021 Jul (1)	Given the CHESSE batch settlement delay on 4 May 2021, ASX to confirm CHESSE replacement will continue to segregate mFund obligations (including payments) from the settlement of cash equities in the CHESSE batch	Oct 2021	Completed	ASX
2021 Jul (2)	ASX to provide further background on the cause for a delay to ASX 24 payments on 4 May 2021, including whether there was a link to the CHESSE batch settlement delay on the same day	Oct 2021	Completed	ASX
2021 Jul (3)	ASX to consider how to engage with participants regarding analysis on the increase in settlement fail rates.	Oct 2021	Completed	ASX
2021 Jul (4)	ASX to engage bilaterally with a member regarding their objection to the presentation format of company logos on the proposed electronic CHESSE holding statements	Oct 2021	Completed	ASX
2021 Oct (1)	GIA to share their insights and experiences from their recent data migration and cutover activities as potential learnings for the CHESSE replacement project	Dec 2021	Completed	GIA
2021 Dec (1)	ASX to follow up bilaterally with Chi-X on the planning and timeframe to manage any potential industry impacts with Chi- X's planned move to the Cboe platform prior to CHESSE replacement go-live	April 2022	Completed	ASX
2021 Dec (2)	ASX to table contingency planning for CHESSE replacement for discussion at a future business committee meeting	July 2022	Completed	ASX
2021 Dec (3)	ASX to table at the April 2022 meeting the current take-up and the trajectory rate for investors opting in for electronic CHESSE holding statements to determine possible next steps	April 2022	Completed	ASX
2021 Dec (4)	ASX to include T+1 in the forward work program for further discussion; in the interim any member feedback on the materials presented would be welcomed	April 2022	Completed	ASX & BC Members
2022 Apr (1)	ASX to consider forums in which non-cash equity conversations can be undertaken, including Austraclear and recent issues and challenges for market repo transactions	July 2022	Completed	ASX

## Business Committee Members

Company	Name	Job Title	Apologies
ABN AMRO Clearing	Barry Parker	Chief Executive Officer	
AFMA	Damian Jeffree	Senior Director of Policy	
ASX	Val Mathews	Business Committee Chair and Chief Customer and Operating Officer	
ASX	*Rob Nash	Senior Manager, Markets	Helen Lofthouse, Group Executive, Markets
AIRA	Ian Matheson	Chief Executive Officer	Apology
ACSA	David Travers	Chief Executive Officer	
ASA	Fiona Balzer	Policy & Advocacy Manager	
AUSIEX	Eric Blewitt	Chief Executive Officer	
Bank of America	Stephen Hacker	Director, Head of Operations	
Bell Potter Securities	Robert Tesoriero	Settlements Manager	
BNP Paribas	Mark Wootton	Head of Custody Product Aust & NZ	
BoardRoom	Martin Jones	General Manager Corporate Governance & Director	
Cboe	Mike Aikins	Chief Operating Officer, APAC	
Citi	Christopher Moore	Manager – Direct Custody & Clearing	
CMC	Andrew Rogers	Director of Broking Business	
CommSec	Sheridan Thompson	Head of Industry Engagement & Process Improvement	
Computershare	Scott Hudson	General Manager – Market Liaison	
Credit Suisse	Winston Loke	Australian Equities COO	
FinClear Services	*Leigh Conder	Chief Operating Officer	David Ferrall, Founder, Managing Director & CEO
Goldman Sachs	Yen Le	Executive Director	
GIA	David O’Kane	Chief Operating Officer	Megan Motto, Chief Executive Officer
HSBC	Toni Icevski	Head of Client Services, Securities Services	Apology
J.P. Morgan	*Steve Hackers	Head of Markets Operations	Jonathan Evans, Head of Custody & Markets Operations
Link Market Services	*Natalie Raynor	General Manager, Registry Australia	Peter Jackson, Chief Operating Officer
Macquarie Group	James Indge	Cash Equities Business Manager	
Morgan Stanley	Rebecca Hill	Chief Operating Officer	Apology
Morgans	Daniel Spokes	Director, Client Support Services	
NAB	Anita Mead	Head of Business Management, Self-Directed Wealth	
NSX	Chan Arambewela	Chief Operating Officer	
SIAA	Judith Fox	Chief Executive Officer	
Sydney Stock Exchange	Michael Go	Chief Executive Officer	
UBS	Scott Hanlon	Head of Operations, Executive Director	

\* Delegate

Name	Job Title	Apologies
Tim Hogben	Group Executive, Securities and Payments	
Daniel Moran	General Counsel	Apology
Hamish Treleaven	Chief Risk Officer	
Dan Chesterman	Group Executive, Technology and Data, and CIO	
Sally Palmer	Deputy General Counsel	
Katie McDermott	General Manager, Equity Post Trade, Securities and Payments	
Diane Lewis	General Manager, Head of Regulatory Affairs	Apology
Andrew Jones	General Manager, Issuer Services, Securities and Payments	
Suzy Munro	General Manager, Securities and Payments Operations	
Karen Webb	Senior Manager, Issuer Services, Securities and Payments	
Keith Purdie	Senior Manager, Equity Post Trade, Securities and Payments	

### Observers

Name	Job Title	Apologies
Nathan Bourne	Senior Executive Leader, Market Infrastructure (ASIC)	
Dodie Green	Senior Manager, Market Infrastructure (ASIC)	Apology
Andia Petropoulos	Senior Analyst, Market Infrastructure (ASIC)	
Matt Gibson	Senior Manager, Financial Market Infrastructure, Domestic and Payments (RBA)	
Stephanie Bolt	Manager, Financial Market Infrastructure, Domestic and Payments (RBA)	

## AGENDA ITEM 1: MINUTES AND ACTIONS

The Chair welcomed members and delegates to the meeting and noted three recent membership changes; Computershare had rejoined the Committee represented by Scott Hudson, David Ferrall was welcomed as the member for FinClear Services (replacing Leigh Conder), and Eric Blewitt was welcomed as the member for AUSIEX (replacing Mat Tilley).

Ian Matheson (AIRA), Rebecca Hill (Morgan Stanley) and Toni Icevski (HSBC) were apologies. David Ferrall (FinClear Services), was represented by a delegate, Leigh Conder. Peter Jackson (Link Market Services), was represented by a delegate, Natalie Raynor. Jonathan Evans (JP Morgan), was represented by a delegate, Steve Hackers. Megan Motto (GIA), was represented by a delegate, David O’Kane. Helen Lofthouse (ASX), was represented by a delegate, Rob Nash.

The Chair noted Roberto Fitzgerald from Ernst & Young (EY) attended the meeting to present an update on their independent assessment of ASX’s Assurance Program (agenda item 3e).

Also attending as observers were ASIC representatives, Nathan Bourne and Andia Petropoulos (Dodie Green was an apology), and RBA representatives, Matt Gibson and Stephanie Bolt.

The agenda, papers and presentation materials (for agenda item 4) were distributed to all members in advance of the meeting. A copy of EY’s June progress report on an Independent Assessment of ASX’s Assurance Program was also shared with members the day prior on an embargoed basis.

The Chair noted three suggestions from members on the agenda, two of which would be addressed at the meeting (derisking the CHES replacement project – addressed as part of agenda item 3c, and ASX’s consultation on market management in response to ASIC’s Report 708 – addressed as part of agenda item 6b). The third suggestion was to discuss risk-related matters including changes to capital requirements, stress testing, cash market margins, cryptocurrency ETFs, and ETO market conditions. The Chair noted that the Risk Consultative Committee which next meets on 28 July 2022 is the most appropriate forum for consideration on these topics, and recommended each organisation review their membership to the Risk Consultative Committee to ensure the right member from their organisation is participating in this forum.

### a) Minutes from 13 April 2022 Business Committee meeting and open actions

The Chair noted that ASX received no comments on the draft minutes circulated on 18 May 2022, and members had no further comments at the meeting. The minutes of the 13 April 2022 meeting were approved without any further changes.

The Chair provided an update on the open action raised at the last meeting, for ASX to consider forums in which non-cash equity conversations can be undertaken, including Austraclear and recent issues and challenges for market repo transactions.

The Chair noted that ASX had undertaken a comprehensive review of all engagement with stakeholders and the forums held, and that there is an extensive amount of engagement across the organisation, ranging from formal to informal, hosted by ASX or hosted by third parties such as industry associations. ASX had introduced several additional enhanced forums or working groups since September 2021 (including two operational working groups, one for markets and one for clearing and settlement). There are also a number of new CHES replacement project specific user groups.

Specific to Austraclear, the Chair noted the bi-annual Austraclear User Group meeting, where ASX consults with the major users of Austraclear and seeks input on the design and operation, development, and future work program for Austraclear.

A new ACSA working group had its first meeting on 3 May 2022, in response to market repo challenges, with participation from the custodian community.

The Chair invited feedback from members on any areas they do not feel has an appropriate forum for contribution. The action has been recorded as closed.

The Chair also provided an update on ASX's annual review of membership of the Business Committee. Referring to a presentation shared during the meeting, the Chair outlined the criteria and process undertaken for the review.

ASX had one expression of interest from Computershare, who have re-joined the Committee given their role as a vendor and user in CHES replacement and that CHES replacement remains a key focus for cash equities clearing and settlement albeit noting the Business Committee is not solely a CHES replacement committee.

Members did not raise any questions in respect of the update.

## **AGENDA ITEM 2: SERVICE PERFORMANCE**

### **a) Cash Market Clearing and Settlement - Operating Performance**

The ASX General Manager, Securities and Payments Operations provided an update on the operating performance of the cash market clearing and settlement services for the June 2022 quarter:

- Service availability for CHES and the Trade Acceptance Service were at 100% for the quarter.
- The daily average fail rate had decreased to 0.238%, compared to 0.251% for the March quarter, and averaged 0.279% for the previous twelve months. In the month of June both the maximum and minimum fail rates were the lowest observed since mid 2020.
- Trades remained strong (across all AMOs, by value and volume) in the June quarter, though marginally lower than the previous quarter.

Members did not raise any questions in respect of the update.

## **AGENDA ITEM 3: CHES REPLACEMENT**

### **a) and b) Project progress update, timeline and milestones**

The ASX Group Executive, Securities and Payments provided an update on project progress since the Committee last met.

In May 2022, ASX confirmed that April 2023 was no longer a viable go-live date for the project, as a result of a delay to the delivery of the workstream to complete the application software build. The other 16 workstreams for the project were tracking green or amber. Planning for determination of a new go-live date was underway.

Testing of the next functional release of code, release 1.3, was tracking to plan and was expected to be deployed into ITE1 at the end of July 2022. The release includes an uplift to trade processing capability to 2.5 million trades per day, akin to today's average volumes. The accreditation process for software vendors has been split into two phases, an initial accreditation to be completed by end of this year and a final accreditation on the code complete candidate. ITE2 (the CHES user test environment) opened for connectivity at the end of April 2022. Four customers had been onboarded to date, with around 50 applications in progress (and at various stages). ASX will now consult on the usefulness of opening ITE2 for user testing in September 2022 given the delay to go-live.

ASX had published its response to the tranche three and consolidated operating rule amendments. New documentation had been published to support industry-wide testing and sample customer migration reports, and an information paper assessing the implementation options for cutover to the CHES replacement system would be published in the coming weeks.

In late June 2022 ASX had to reset the ITE1 environment during the batch settlement cycle to correct a matter in the code. The ASX Group Executive, Securities and Payments acknowledged the impact of a reset on ITE1 users, with the loss of data and scheduled transactions, including the impact to longer dated test scenarios around corporate actions. This was the second unplanned reset in ITE1, the first being in November 2021. When necessary and upon careful consideration ASX would continue to use resets to manage situations like this until version 1.4 of the code (the code

complete software) was provided by Digital Asset. Understandably, resets are not considered an option to resolve issues in a production environment.

A registry member asked how many customers ASX expected to on-board into ITE2. The ASX Group Executive, Securities and Payments confirmed the total target was around 90, and that it was important to balance the certainty of when CHES user testing will commence with organisations committing technical resources to set-up access to the environment. The registry member noted that resourcing is a serious challenge across the board at present.

Regarding the status of replanning the project go-live date, the ASX Group Executive, Securities and Payments noted the need to balance providing a go-live date to enable customers to plan and allocate resources and investments, against the need for ASX to do the right level of due diligence to produce a confident and realistic timeframe for go-live.

It was noted release 1.3 would address the balance of functional code, with release 1.4 to address the balance of non-functional requirements (NFRs), which were always planned to be delivered at the end of the project, and include substantial up-lift to the volumes the operating platform can support. ASX is also currently reviewing project risks related to scalability and performance and use of appropriate mitigations around those risks, including reviewing how contingency would be applied.

After this information has been obtained, and Digital Asset has provided its revised delivery plan, ASX would then be able to communicate with stakeholders regarding the re-plan, which will include a revised timeline and critical path milestones. This will allow ASX to engage with stakeholders across the industry, and to provide the right information for stakeholders to consider the re-plan and facilitate a bottom-up approach. ASX is still considering the best way to seek that input and address the lessons learned from the previous re-plan in 2020.

Once ASX has received input and feedback from the market, the re-plan will then go through an internal governance process with ASX executives, before being presented to ASX's board with the recommended revised timeline.

ASX has also engaged EY to undertake a parallel independent review of ASX's re-planning process, to help support ASX's decision making and provide assurance to the industry.

A participant member noted that ASX had previously communicated that the revised timeline would be available in October 2022, and asked whether this would now be November 2022. The ASX Group Executive, Securities and Payments confirmed ASX was still targeting to release the revised timeline in October 2022, subject to further planning.

A registry member asked whether ASX was recutting some work streams to remove bottlenecks and concurrency of activities. The ASX Group Executive, Securities and Payments noted that the amount of parallelism that can be run in the program would be subject to discussion with the industry as part of the bottom-up approach to the re-plan, along with the duration and the point in time the activity falls in the calendar year.

#### Customer readiness tracking during industry testing

Referring to a presentation shared during the meeting, the ASX Senior Manager, Equity Post Trade, Securities and Payments provided an overview of how testing is progressing in ITE1, on version 1.2 of the code base, noting that the ITE1 environment is for software providers only. There are 26 unique organisations connected in ITE1, with one additional organisation yet to connect and collectively the CHES replacement application has been thoroughly tested by all CHES user groups developing software.

At a high-level, for functional testing, there is a predetermined set of features by role. Not every CHES User type requires every ISO message. Clearing and settlement participants have the largest breadth of functionality to support, followed by registries and then payment providers and AMOs (who use FIX). From a messaging perspective, the functional builds for payment providers and AMOs is critical but relatively small by message type, and not included in the update.



Using a list of key features for each CHES user, ASX had developed internal reporting based on testing evidence within ITE1. Another important aspect of progress is what is not yet evidenced by an organisation's testing within ITE1, which feeds into ASX's engagement with software providers through its bilateral meetings.

Since ITE1 commenced, the majority of functionality has been tested across the respective roles, with close to 100% functional coverage across all CHES user types. Based on the features and functions by CHES user role – an anonymised peer-to-peer comparison was presented to provide a broad indication of how the market is progressing. Key highlight included:

- The third-party vendor group was noted as very focused and well progressed with functional testing.
- Clearing and settlement participants who are developing their own in-house software (many of whom use a proprietary global back-office system) were characterised as more varied in their progress, however it was noted that they would not necessarily be developing to all functions and features, and some intended to use the CHES User Interface as part of their solution. In-house developers can also request exemptions for functionality not applicable to their business. ASX was working closely with one outlier to ensure they will be ready for the initial technical accreditation phase.
- The share registry and PISP cohort (all but one are developing in-house) was characterised as previously lagging, but following targeted engagement this had significantly improved. ASX was working closely with a small number of outliers to ensure they will be ready for the initial technical accreditation phase.

ASX will continue to track readiness across key project milestones including accreditation, operational readiness and market dress rehearsals, and use metrics to aid engagement and support.

An industry association member asked what the difference was between the 27 organisations developing in-house software and the one organisation developing a proprietary solution, noting this had been separated out on the presentation slide. The ASX Senior Manager, Equity Post Trade, Securities and Payments clarified that whilst there are 27 organisations building software, one organisation had not connected to ITE1 to date; this organisation is expected to catch-up quickly.

Referring to the presentation shared during the meeting, a registry member asked whether the metrics measured number or size. The ASX Senior Manager, Equity Post Trade, Securities and Payments confirmed the metrics captured breadth of functionality to ensure all organisations have a system that supports their respective CHES user type, and noting that volumes are less material at this stage. The registry member noted that their reporting is showing a higher number of issues than indicated in the presentation materials, and that about half of the 16 items they are tracking as outstanding (having regard to size, scale and severity) are tracking red given the functionality is not available for testing at present. The ASX Senior Manager, Equity Post Trade, Securities and Payments acknowledged that this was a different metric, and the reporting shared in the presentation materials by ASX was at a higher level to demonstrate what testing has been attempted by whom for confidence at a messaging level, and the more granular level of technical accreditation will prove out every combination of a particular function.

A participant member asked if the presentation would be made available after the meeting. The ASX Senior Manager, Equity Post Trade, Securities and Payments confirmed that the presentation materials would not be distributed following the meeting, noting they include anonymous reporting across the market, but that ASX would provide each organisation with their own statistics as relevant.

### **c) Contingency planning**

The ASX Group Executive, Securities and Payments provided a high-level introduction to how ASX was considering contingency planning for industry readiness for the CHES replacement program (not how ASX was considering contingency planning within the timeline of the re-plan).

Contingency planning was being considered across:

- Whole of market readiness - transparency of the readiness activities and progress through key project milestones
- Pre-readiness activities (pre-cutover)

- Readiness activities or contingency planning over the cutover weekend.

Contingency planning will consider the scenario where a CHESSE user is not ready for key project milestones, including the implementation weekend, or ASX has concerns about the ability for that user to be ready based on their testing progress up to that date. The considerations and actions that ASX may take will depend on various factors.

ASX intends to be transparent about how it tracks the preparedness of the industry both in advance of go-live as well as over the cutover weekend as follows:

- Operational readiness will evidence users' functional capability
- Industry wide testing will prove that the industry can all work together
- Market dress rehearsals will allow users to test before and after processes related to the go-live weekend
- Attestations and commitments will be required from each user that they're technically and operationally ready under the operating rules

ASX will provide the market with reporting on key project milestones to help them understand progress against plan. Anonymised peer reporting will provide an indication as to industry progress, including where each organisation is in the development cycle compared to their peers. ASX will also provide reporting to the regulatory agencies.

Consideration is also being given to how ASX can leverage industry associations to work through any issues or challenges being experienced by CHESSE users.

Specific to the cutover weekend, ASX will define real-time activities, and a number of stages over the weekend that would trigger certain actions or activities of a CHESSE user being identified as not progressing to plan or being ready. Within those trigger events, ASX will do scenario analysis planning, to identify ASX's response to each of those situations.

In terms of next steps, ASX will continue to update the Committee, including finalising the pre-go-live tracking of milestones, and the reporting to the market.

An industry association member asked whether contingency planning would also contemplate issues with the CHESSE [replacement] system itself, including how they would be resolved during the cutover weekend and potentially on the first day of trading. The ASX Group Executive, Securities and Payments confirmed the scenario testing would address this, and that it would be shared with the market.

Another industry association member asked whether ASX would engage with individual CHESSE users in addition to the Business Committee on contingency planning. The ASX Group Executive, Securities and Payments advised that ASX would use webinars and stakeholder engagement forums to engage with the broader market, and that ASX's Participants Compliance team would also be involved.

#### **d) CHESSE replacement operating rule amendments**

The ASX Deputy General Counsel advised that ASX released its response to consultation on tranche three and the consolidated rules on 30 June 2022. The amendments in tranche three included netting, settlement, reporting, miscellaneous amendments, and the transitional rules addressing the migration cutover. Those rules also included changes to netting and settlement workloads.

ASX received eight submissions from a range of stakeholders including participants, payment providers, industry bodies and a registry, in addition to the 23 submissions ASX received in relation to tranches one and two. The ASX Deputy General Counsel thanked all who made submissions for their input.

In relation to the rule amendments, the changes resulting from feedback from this consultation were not significant. Reasons for this included:

- A number of the points raised were requests for clarification about operational processes

- Most of the queries concerning data governance related to points that are covered in ASX's published data governance paper on CHES and CHES replacement
- Some of the requests for changes were already covered by the existing drafting.

Examples of changes that were made in response to feedback include:

- Modification of the requirement for participants to take steps to obtain correct holder records, to use the same language as the Privacy Act 1988 (Cth)
- Clarification of the rule relating to system authentication to make it clear that a user or service provider can have access on behalf of a number of users.

The response to consultation includes a summary table that sets out each piece of feedback received and ASX's response to that feedback and, where relevant, the rule amendments that resulted.

Going forward, the rules will go through the regulatory process, and ASX aims to publish the final set of rules at least six months prior to the go-live date.

Members did not raise any questions in respect of the update.

#### **e) Assurance program update**

ASX's Chief Risk Officer introduced the topic and provided context before inviting EY to talk to its most recent assurance program report. ASX's assurance program for the CHES replacement project consists of a number of reviews across a wide range of topics at various important milestones in the project. EY, as ASX's appointed independent expert, had completed its second report as part of the ongoing semi-annual review of the assurance program.

The EY Partner (Roberto Fitzgerald) confirmed that EY's latest report had been shared with the Committee the day prior. It was the second independent report produced, and overall it found that the the assurance program continues to be fit for purpose, having regard to the breadth, depth, and sequencing of the assurance program. EY observed that ASX's assurance program continued to mature, and all three findings from EY's previous report dated 28 February 2022 had been satisfactorily closed. EY had two new forward looking findings in this report.

The first finding relates to how the assurance program is dealing with outcomes from the assurance reviews. While the vast majority of items that were raised as recommendations were tracked, measured, managed, reported and dealt with appropriately, EY did find some exceptions going back to 2019 where that didn't always happen. In a small number of instances, EY did not find evidence to the ASX standard where it was required. EY also noted that where a third-party review report did not have risk ratings, for a small number it was unclear how that got tracked into ASX's risk framework.

The second finding relates to materials for a go/no-go decision (at various key milestones in the project). EY's finding goes to being more precise about one particular criterion and having regard to this need for clarity as the project progresses and as any additional criteria are added. One criteria used the words 'sufficient controls', and EY noted that 'sufficient' is not part of ASX's risk management framework, and could be interpreted subjectively. Having clarity and consistently about each go/no-go decision criteria also applies to any further criteria that get added over the course of the project.

In terms of next steps, the EY Partner confirmed their next report was due in six months, around December 2022. The scope of that review would include checks that previous EY recommendations had been accepted, addressed and closed out. The review would also focus on assurance activities over the next six months, and the outcomes of those. In addition, two key aspects to the re-plan that would be considered:

- The scope of the assurance over the re-plan and the supporting activity and outcomes
- What the re-plan means for the assurance program itself (having regard to its breadth, depth, and timing)

Referring to a question raised at the last (April 2022) meeting, the EY Partner confirmed that EY would engage with stakeholders outside of ASX as ITE1 continues and ITE2 opens. EY would give further consideration to who they speak to, when they speak to them, and what they speak to them about.

A registry member noted EY was six months into their semi-annual assurance review, and asked why no external stakeholders had been engaged as part of EY's review to date. The EY Partner confirmed that EY had focused on its design work and the two reports issued to date, which are both published, and EY was cognisant of tying engagement with stakeholders to tangible and specific matters such as testing or accreditation as opposed to speaking generally to the reports it had produced.

An industry association member asked the EY Partner whether they could put a number or percentage on the maturity of the assurance program (e.g. 98% of the way there). The EY Partner noted that EY had not put a maturity methodology around it, but noted that as at today, the program had improved and evolved to a more mature state than when it was formalised in August 2021.

Following this line of question, a participant member asked if EY's methodology for ratings was more sufficient or insufficient, as opposed to a red, amber or green methodology. The EY Partner confirmed EY assessment is relatively binary – ie whether the assurance program is fit or not fit for purpose, rather than how fit or unfit it is. At this point in time EY is confident that the overall assurance program is fit for purpose.

#### **AGENDA ITEM 4: SERVICE ENHANCEMENTS**

##### **a) Electronic CHES holding statements**

Referring to a presentation shared during the meeting, the ASX General Manager, Issuer Services, Securities and Payments, provided an update on the electronic delivery option for CHES holding statements which went live in December 2021, and has been running without incident for over six months. Broker participants could opt customers in using existing infrastructure (a MT 201 or 203 message). In terms of an update on progress with opt-in, growth was good, from a low base, with over 20,000 investors now opted in, supported by 18 broker participants. Around half of the total investors now opted-in had occurred in the last month or so, driven by some smaller fintech brokers and supported by FinClear and Open Markets. The ASX General Manager, Issuer Services, Securities and Payments expected this rate of growth would continue at around the same pace. The more substantive and material changes would occur when the larger retail brokers are ready, many of whom have no commercial objection but need to consider how this project fits into their own organisation's forward planning.

Phase two of the work was to provide a new returned mail solution for both electronic and paper statements, and a new paper statement design (to align with the new electronic statement design). From 11 July 2022, all returned mail would be notified to participants electronically (either via ASX Online or SFTP) to allow participants to automate their back office systems and automate communications to their clients. This functionality had been in place for electronic holding statements since December 2021 and as of that week was also in place for paper statements. Participants may continue to receive paper statements from ASX for the next month or so, given the change became effective mid-month, but by September or October 2022 paper returned mail would likely be gone.

Members did not raise any questions in respect of the update.

#### **AGENDA ITEM 5: REGULATORY EXPECTATIONS – EXTERNAL AUDIT**

##### **a) Update on the upcoming external audit of ASX's compliance with the regulatory expectations**

ASX's Chief Risk Officer noted that the annual external audit of ASX's compliance with regulatory expectations would commence shortly, and would be conducted in the same manner as last year (interview based), led by PwC. PwC would determine a representative sample of Committee members and contact them directly to verify whether they would like to participate in the audit. The Committee was invited to contact Deanna Chesler or Glenn Mackrell from PwC if they wished to volunteer to participate, with PwC's interviews expected to occur in the first week of August

2022. ASX's Chief Risk Officer noted that further information on the scope of the audit and the regulatory expectation could be found in the supporting paper. The findings of the audit would be presented at the next meeting.

Members did not raise any questions in respect of the update.

## **AGENDA ITEM 6: OTHER MATTERS**

### **a) Forward work program**

Referring to the forward work program, the Chair outlined the items planned for discussion at the October 2022 meeting, including carrying forward an item the AIRA member will talk to regarding a white paper AIRA published in January 2022, 'Am I a Shareholder?'.

The Chair welcomed feedback and suggestions for agenda items for future meetings.

### **b) Any other business**

The Chair noted a suggestion from a Committee member to discuss ASX's consultation paper released in June 2022 on market management in response to ASIC's Report 708 on ASIC's expectation for industry in responding to a market outage. The Chair noted consideration of capacity at an industry level, given the magnitude of work in the industry at present. The ASX Senior Manager, Markets, provided an overview of the consultation paper, the first of three related consultation papers ASX will release to address ASIC's eight expectations (with the second expected in September 2022 and the third in December 2022). ASX had met with a number industry bodies and members of the Committee to date to discuss (around 40 stakeholders to date, with a further 40 scheduled in coming weeks), and members were invited to engage with ASX before the end of the consultation period on 9 August 2022. ASX would consider extensions to this deadline as requested.

Members did not raise any questions in respect of the update.

The Chair noted no new actions from this meeting.

The Chair thanked the Committee for their contributions and conversation.

### **c) Next meeting – 5 October 2022**

The next meeting is scheduled for 5 October 2022.

The meeting closed at 1.45 pm.

Signed as a correct record of the meeting.

A handwritten signature in black ink, appearing to be 'Anthony', written over a horizontal line.

Chair

\_31/10/2022

Date