

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

## Business Committee Meeting

At its 5 October 2022 meeting, the Business Committee was updated on:

- the operating performance of CHES for the September quarter 2022
- the CHES replacement project, including updates on project progress, the independent review by Accenture and the assurance program
- the external audit of ASX's compliance with the regulatory expectations, and ASX's annual report on Cash Equity Clearing and Settlement service developments
- an update on issuer services enhancements.

### KEY ISSUES DISCUSSED

Members were briefed on the public holiday on 22 September to commemorate Her Majesty Queen Elizabeth II's death, and the work performed by ASX and industry to prepare with eight business days' notice.

An update was provided on the status of the CHES replacement project, including:

- An overview of core issues being examined by Accenture as part of its review of the project
- Accenture's review being on schedule, with the publication date for the Accenture review to be late November or potentially early December
- ASX would begin engaging with stakeholders on the findings of the review, following publication and before a more formal consultation
- Confirmation that Accenture would present their findings at the next Business Committee meeting
- Updates on ITE1 and ITE2 activity.

There were questions and discussion about competing industry priorities and the need for clarity around timing from an investment and resourcing perspective. Questions and discussion also included the longevity of existing CHES, the course of action should Accenture's review conclude that the replacement system is not fit for purpose, the duration and form of ASX's consultation on the project replan and whether ASX would consider further functionality changes. The nature of member engagement as part of the assurance program was also discussed.

ASX also acknowledged member feedback that ASX's announcement on 3 August was unexpected following the CHES replacement project update provided at the 13 July Business Committee meeting.

At member request, ASX provided an overview of the RBA's recent assessment of ASX against its Financial Stability Standards, including discussion around settlement facility standard 9.1 and CHES holding statements.

Members were also briefed on the roadmap of issuer services work over the next 12-18 months.

### AGREED ACTIONS

Four new actions were raised at the meeting:

1. ASX to amend the draft minutes from 13 July 2022 meeting to reflect the update provided on the status of the 17 streams of CHES replacement work
2. ASX to consider publishing a policy regarding treatment of ETO expiry on a closure day (e.g. late announced public holiday, core technology outage etc)
3. ASX to discuss with ASIC competing industry demands with the potential concurrency of consultation on ASIC Report 708 and CHES replacement
4. ASX to consider revising the explanation in the Clearing and Settlement Schedule of Fees regarding the circumstances in which a discount is available for Holder/Holding bulk changes.

Minutes from the meeting are attached.



ASX

# Agenda

## Business Committee

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<b>Date</b>	5 October 2022	<b>Time</b>	12:00pm- 2:00pm
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<b>Location</b>	ASX offices – Level 1, 20 Bridge Street, Sydney/MS Teams
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<b>1. Minutes and Actions</b>	12:00pm- 12:15pm
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- a) Minutes from the 13 July 2022 Business Committee Meeting
  - b) Open actions
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<b>2. Service Performance</b>	12:15pm- 12:25pm
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- a) Cash Market Clearing and Settlement - Operating Performance
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<b>3. CHESS Replacement</b>	12:25pm- 1:25pm
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- a) Project progress update
  - b) Assurance program update
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<b>4. Regulatory Expectations</b>	1:25pm-1:40pm
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- a) External audit of ASX's compliance with the regulatory expectations
  - b) Annual report on Cash Equity Clearing and Settlement Service Developments
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<b>5. Service Enhancements</b>	1:40pm- 1:50pm
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- a) Update on developments
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<b>6. Other Matters</b>	1:50pm- 2.00pm
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- a) Forward work program
  - b) AOB
  - c) Next meeting – 7 December 2022
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## Action Items\*

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

Item number#	Action	Due date	Status	Owner
2021 Oct (1)	GIA to share their insights and experiences from their recent data migration and cutover activities as potential learnings for the CHES 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 CHES replacement go-live	April 2022	Completed	ASX
2021 Dec (2)	ASX to table contingency planning for CHES 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 CHES 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
2022 Oct (1)	ASX to amend the draft minutes from 13 July 2022 meeting to reflect the status of the 17 streams of CHES replacement work	Dec 2022	Open	ASX
2022 Oct (2)	ASX to consider publishing a policy regarding treatment of ETO expiry on a closure day (e.g. late announced public holiday, core technology outage etc)	Dec 2022	Open	ASX
2022 Oct (3)	ASX to discuss with ASIC demands on the industry, in the context of the potential concurrency of consultation on ASIC Report 708 and CHES replacement	Dec 2022	Open	ASX
2022 Oct (4)	ASX to review the wording in its Clearing and Settlement Fee Schedule describing the discount available	Dec 2022	Open	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	Bradley Campbell	Acting Co-head, Markets	
AIRA	Ian Matheson	Chief Executive Officer	Apology
ACSA	David Travers	Chief Executive Officer	
ASA	Fiona Balzer	Policy & Advocacy Manager	
AUSIEX	Patrick Salis	Chief Executive Officer	
BANK OF AMERICA	Stephen Hacker	Director, Head of Operations	
BELL POTTER SECURITIES	Robert Tesoriero	Settlements Manager	
BNP PARIBAS	*Sam Meares	Head of Banking Service Operations Aust & NZ	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	Apology
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	David Ferrall	Founder, Managing Director & CEO	
GOLDMAN SACHS	*Marton Laszlo	Head of A/NZ Operations	Yen Le, Executive Director
GIA	*Catherine Maxwell	General Manager, Policy & Advocacy	Megan Motto, Chief Executive Officer
HSBC	*Tanya Dioguardi	Client Services Manager at HSBC Custody Nominees (Australia)	Toni Icevski, Head of Client Services, Securities Services
J.P. MORGAN	Jonathan Evans	Head of Custody & Markets Operations	
LINK MARKET SERVICES	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	Apology
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	Stuart Guinness	Director – Regulatory Affairs / Company Secretary	
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	Apology
Sally Palmer	Deputy General Counsel	
Katie McDermott	General Manager, Equity Post Trade, Securities and Payments	
Diane Lewis	General Manager, Head of Regulatory Affairs	
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)	Apology
Dodie Green	Senior Manager, Market Infrastructure (ASIC)	
Andia Petropoulos	Senior Analyst, Market Infrastructure (ASIC)	
Kylie Stewart	Senior Manager, Financial Market Infrastructure, Domestic and Payments (RBA)	
Stephanie Bolt	Manager, Financial Market Infrastructure, Domestic and Payments (RBA)	Apology

## AGENDA ITEM 1: MINUTES AND ACTIONS

The Chair welcomed members and delegates to the meeting and noted two recent membership changes; Patrick Salis was welcomed as the member for AUSIEX (replacing Eric Blewitt), and Steven Larkins was welcomed as the member for Sydney Stock Exchange (replacing Michael Go).

Ian Matheson (AIRA), Andrew Rogers (CMC), Rebecca Hill (Morgan Stanley) and Daniel Spokes (Morgans) were apologies. Mark Wootton (BNP Paribas), was represented by a delegate, Sam Meares. Yen Le (Goldman Sachs), was represented by a delegate, Marton Laszlo. Megan Motto (GIA), was represented by a delegate, Catherine Maxwell. Toni Icevski (HSBC), was represented by a delegate, Tanya Dioguardi.

Roberto Fitzgerald and Juan Carlos Martin from Ernst & Young (EY) attended the meeting as guests for the CHES replacement assurance program update (agenda item 3b).

Attending as observers were ASIC representatives Dodie Green and Andia Petropoulos (Nathan Bourne was an apology), and RBA representative Kylie Stewart (Stephanie Bolt was an apology). Brett Harper (AFMA) also attended as an observer.

The agenda and papers were distributed to all members in advance of the meeting.

### a) Minutes from 13 July 2022 Business Committee meeting

The Chair noted that ASX received no comments on the draft minutes circulated on 4 August in advance of the meeting.

#### Member discussion:

A registry member requested ASX amend the minutes to reflect the verbal statement made as part of the CHES replacement project update; that of the 17 streams of the project, 16 were tracking green or amber. The Chair confirmed that ASX would amend and re-circulate the minutes.

### b) Open actions

The Chair noted there were no open actions.

## 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 September quarter (using data for July and August):

- Service availability for CHES and the Trade Acceptance Service were at 100% for the quarter
- The daily average fail rate was relatively low during the reporting period, notably in July where the fail rate averaged 0.16%. The daily average fail rate increased for a few days in August, attributed to the netting treatment for one security that was going through a non-renounceable rights issue for three days in the month
- Trades were lower in July and August, and adding in September data trade volumes are consistent with the past two quarters, while trade value has decreased

The ASX General Manager, Securities and Payments Operations acknowledged the public holiday on 22 September to commemorate Her Majesty Queen Elizabeth II's death. With eight business days' notice, changes to inflight business events and dates across many systems were required at both ASX and across the industry. A number of corporate action events had a record date and ex-date set for 22 September, which needed to be moved to a valid business date. A number of issuers also had payment dates set for 22 September that needed to be assessed on a case by case basis. Furthermore, 23 ASX issuers had scheduled critical corporate action events for 22 September, and each needed

to be rescheduled to a valid business date. All changes were effected within the preceding week and in place by Friday 16 September, so that all files and security events were updated ahead of the public holiday.

**Member discussion:**

A participant member thanked ASX for its related work on weekly ETOs, noting the right outcome was achieved. However, the member requested ASX publish a procedure or policy to fall back on when there is not the opportunity to plan for an outage (or similar) in relation to an options expiry. The member noted this matter had been raised multiple times and pointed to the example of Hong Kong exchange having a clear published policy in this area. The ASX Markets member had not joined the meeting at this point to respond to the request and the Chair advised that ASX would take this away as an action.

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

#### **a) Project progress update**

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

As part of PwC's audit of ASX's compliance with the regulatory expectations, member feedback was acknowledged around how ASX's market announcement on 3 August was unexpected following the CHES replacement project update provided at the 13 July Business Committee meeting. The ASX Group Executive, Securities and Payments noted ASX's intention to release information as soon as possible, and this had to be considered with ASX's continuous disclosure obligations. Going forward, ASX would give consideration to the timing of Business Committee meetings versus the timing of material announcements.

ASX continues to work through the current replanning exercise before it is able to confidently communicate a new timeline for stakeholder feedback. As a result, recent customer feedback has noted difficulties with investment and resource planning, including for the upcoming end of year holiday period. ASX acknowledged and understood why some software vendors and other stakeholders had paused work on the project, noting that work for ASX continued across a number of work streams.

The ITE1 environment had been upgraded with a release at the start of August 2022 that included functionality for changes to controlling participants and class mergers. A couple of pilot customers were currently undertaking initial accreditation activities for messaging in ITE1 with ASX using a purpose built tool, that has automated many of the processes and reduces the manual effort required. Early feedback from the pilot customers on initial accreditation has been positive.

All software vendors are now in ITE1, and all of CHES functionality made available in ITE1 following the August release has been tested by one or more software providers (noting the testing has uncovered some new defects). ASX had observed a recent decline in testing, with some customers pausing any further activity until the outcomes of the Accenture review and a new timeline have been communicated. Some software providers had indicated they would be accrediting their software as soon as possible, although initial accreditation was not mandatory at that point in time.

Seven CHES users were now connected to ITE2 with a number of other applications still in progress. 13 customers had advised they would opt out of connecting to ITE2 at this point in time, until further information becomes available. Connectivity to ITE2 is not mandatory at this time and consistent with ASX's communication on 3 August, CHES user readiness testing will commence no later than 12 months prior to a new go-live date.

ASX published a project update earlier today (5 October) on the planning processes around the Accenture review and the timing for the start of industry engagement after the findings have been made public.

Recent updates to technical documentation had included connectivity protocols, accreditation checklists, supporting documentation about code drops and new information around Ledger API contracts.

**Member discussion:**

An industry association member noted resourcing expectations on market operators and participants in the context of ASIC Report 708, and asked whether ASX was considering this in light of potential implications of ramping down and subsequently ramping up CHES replacement testing activity. The ASX Group Executive, Securities and Payments acknowledged the demands on customers at that point in time, and advised that ASX had thoroughly reviewed ASIC Report 708 for outcomes applicable to the CHES replacement project. Whilst the resourcing ramp down/up had not been explicitly considered by ASX in the context of ASIC Report 708 to date, the Chair confirmed that ASX would liaise with ASIC to ensure industry capacity is appropriately considered.

A participant member noted Cboe's technology upgrade was occupying different internal resources within their organisation. The participant member noted they had stood down their CHES replacement team and were working on other priorities at present.

Another participant member added they had also re-directed their CHES replacement team onto other initiatives, and in some cases contracting staff had been let go.

The ASX Group Executive, Securities and Payments reiterated ASX's prior communication that go-live would not be before late 2024 at the earliest, with increased participant demand in the 12 months in the lead up to go-live, as well as some engagement with stakeholders around a replanning exercise in the near term. The participant member noted they would look to redeploy staff as needed, and the ASX Group Executive acknowledged this risk and noted the importance of clear communication from ASX regarding timing to ensure forward planning.

Another participant member noted that generally for custodians, and at least for their organisation, they would need to plan their technology resources by mid calendar year for redeployment in the following year or 12 months time.

### **Accenture Review**

The ASX Group Executive, Securities and Payments noted the communication released 5 October to CHES replacement stakeholders advising that the independent review by Accenture was on schedule. It was noted that after ASX receives the final report, it will go through internal assessment and governance processes, before the report findings are publicly released. ASX expects the publication date to be late November or potentially early December. Afterwards, ASX would then begin engaging with stakeholders on the findings before a more formal consultation. The planning around stakeholder engagement activities would take into account the end of year holiday period, acknowledging that many organisations would have staff on leave around that time.

The ASX Group Executive, Securities and Payments also acknowledged recent discussions with AFMA and its members on what the industry can do to help. ASX appreciated this engagement in the context of discussing the challenges it was facing with the CHES replacement application and the impacts functional components can have on non-functional outcomes.

The ASX Group Executive, Securities and Payments then provided an update on four core issues Accenture are assessing in relation to performance, scalability, recoverability and supportability.

1. Bilateral matching - bilateral transactions are currently matched sequentially, i.e. it is a serial process that presents scalability and performance challenges, particularly in areas with a high volume of 'potential matches'. A possible solution would be to introduce a unique identifier as part of the matching criteria.
2. Cum entitlement balances - an Australian market practice that perpetuates existing CHES system complexity. However, since the move to T+2 settlement, the need to maintain a cum entitlement balance has diminished in line with other markets.
3. Holdings - transactions targeting a single holding at volume have performance scalability constraints, as the system needs to update the holding sequentially, especially in the context of accumulation accounts. This results in processing bottlenecks and creates future scalability challenges.
4. Resiliency - during complex and long running batch processes e.g. batch settlement, the system must retain information 'in state' to ensure commitment of final outcome to the ledger. Using distributed ledger technology in its pure form, transactions would be committed as they occur, and similarly customers would be notified of fails as they occur. Where there is a business logic failure mid-way through batch settlement, the application



needs to consider how to recover any 'in state' processes safely to ensure both the ledger and customers remain aligned.

Further guidance on any stakeholder engagement activities will follow the publication of Accenture's findings.

It was also noted that ASX continues to invest in the existing CHES system to ensure it remains secure and stable, and continues to perform well.

**Member discussion:**

In response to a question from an industry association member, the ASX Group Executive, Securities and Payments noted two further issues that were not customer impacting and are about improving the performance of the system from a design perspective.

A participant member asked what analysis ASX had performed on the remaining lifetime of current CHES should the Accenture review conclude the replacement system is not fit for purpose. The ASX Group Executive, Securities and Payments advised the front end and back end servers/hardware are supportable for years to come, and ASX was strengthening its COBOL programming capabilities in addition to existing third party arrangements already in place. From an internal support perspective, ASX had assessed current CHES as very low risk for the foreseeable future.

Another participant member asked whether the four core issues discussed were issues in current CHES, or whether they are issues specific to the use of distributed ledger technology, and whether ASX would consider bringing forward any of the Day 2 functionality while it was considering these functional changes. The ASX Group Executive, Securities and Payments noted the issues are largely related to building future scalability coupled with the complexities of the Australian market and serial (sequential) based processing, and advised it was not ASX's current intention to increase the scope for Day 1 by bringing forward any Day 2 functionality given the desire for a predictable and efficient path to go-live.

An industry association member noted their appreciation for ASX collaboratively working with its members and reiterated the support of the industry in the successful project delivery.

A participant member asked what form ASX's consultation on the replan will take, the expected duration and when ASX would be in a position to confirm the new go-live date. The ASX Group Executive, Securities and Payments advised that this was dependent on the outcomes of the Accenture review, however any formal consultation process would provide for a minimum four weeks for stakeholder review, and would likely be supplemented by some bilateral or industry-wide webinar style engagement.

A registry member asked what would happen if Accenture's review concludes that the replacement system is not fit for purpose. The ASX Group Executive, Securities and Payments noted that ASX's board and management was tracking this risk and had clear pathways for alternatives, if needed, and work done to date on CHES replacement would not necessarily be considered throwaway. It was also noted that plans and investments had been made to current CHES to enhance its longevity.

A participant member noted ASX's earlier comments about some of the challenges being considered being due to the unique nature of the Australian market, and asked whether ASX was considering structural changes to address these issues and potentially more closely align to international standards, including potential changes in scope. The ASX Group Executive, Securities and Payments referred to the previous comment on engaging with AFMA and its members on the willingness to consider looking at different ways of doing processes that haven't changed in decades to help with non-functional requirements around scalability and performance, for example cum entitlements balances. Any changes to scope also need to be weighed up against time and cost, both to ASX and stakeholders at this stage in the project.

A market operator member sought further information on the investments in current CHES to ensure its longevity continues. The ASX Group Executive, Securities and Payments noted that in addition to the earlier comments on COBOL programming and hardware, it was noted changes have been made to how transactions are written to the CHES databases as well as simplifying some overnight jobs to optimise time spent on processes such as reporting.

A registry member sought to understand if the Accenture review includes engaging with external stakeholders or is it solely with ASX and its partners, DA and VMware. The ASX Group Executive, Securities and Payments noted the Accenture review does not extend to engagement with external stakeholders and clarified the review is only focused on the CHES replacement application.

#### **b) Assurance program update**

ASX's Chief Risk Officer advised that EY's third semi-annual independent report was expected in December 2022.

The assurance program would be re-baselined and re-scheduled following the outcomes of the replanning exercise, to ensure the reviews are appropriately aligned to milestones. This work will likely occur in the first quarter of 2023. These details will then be shared with EY for them to form their opinion on whether or not the assurance program continues to be fit for purpose; it is anticipated this opinion would be included in EY's June 2023 semi-annual report.

Focus areas for the assurance program and EY through until December 2022 include:

- EY completing a short review of the scope of work and purpose of the Accenture review, as required by the regulatory agencies, to ensure the scope of work, approach and methodology will answer all of the questions being posed
- EY reviewing the outcomes of the existing assurance program reviews, with a current focus on security
- EY commencing the review of the replanning work towards the end of the year and into first quarter 2023 (as noted above)

ASX's Chief Risk Officer also provided an update around how EY is engaging with ASX. EY had recently attended a monthly executive steering group meeting for the CHES replacement project, and a fortnightly assurance program governance meeting. EY will attend more of these meetings going forward.

#### **Member discussion:**

A registry member repeated a question from previous meetings; what does the external engagement program look like, and when will it occur. The EY Partner (Roberto Fitzgerald) noted that as part of its replan review, EY will closely review ASX's stakeholder consultation, including who is consulted, the amount of time allowed for feedback, the information provided and what ASX does with the feedback it receives. These observations would form part of EY's process, with another source of information potentially coming from bilateral engagement. In terms of exactly how and when EY would engage externally, EY was considering this as part of an overall integrated plan. The EY Partner also noted that EY had been engaged with Accenture to date. The registry member sought clarification that they should not expect any engagement from EY before the end of the year. The EY Partner noted EY was dependent on the replan consultation in terms of timing, and advised the member that they shouldn't expect EY engagement between now and the end of 2022 other than in connection with the ASX replan consultation (when applicable).

### **AGENDA ITEM 4: REGULATORY EXPECTATIONS**

#### **a) External audit of ASX's compliance with the regulatory expectations**

ASX's Chief Risk Officer noted that PwC had completed their annual audit with the same interview based methodology used in recent years. The findings of the audit had been shared with Committee members via the meeting papers, including PwC's opinion that ASX had complied in all material respects with the regulatory expectations as evaluated against the compliance framework for the year ended 30 June 2022.

PwC had one finding, based on feedback from members about not being fully aware of what pricing discounts they are eligible for, and ASX had one action from the audit to communicate to members the discounts available and eligibility criteria.

The ASX General Manager, Equity Post Trade, Securities and Payments provided further context on the discount – which is applicable for holder recordkeeping as distinct from ASX's revenue share scheme (i.e. rebates). The discount is detailed in ASX's Clearing and Settlement Schedule of Fees, however the ASX General Manager, Equity Post Trade, Securities and

Payments acknowledged the wording was potentially unclear, and noted that ASX would review the wording in light of the audit finding. The discount is specific to ASX-managed HIN migrations, where the fees are in excess of \$40,000 (for example, a change of back office system might require a bulk transfer, or a merger of participants). For activity of this scale, it would require the involvement of ASX, and ASX advises participants if they are eligible for the discount as part of the process of working with the customer on the migration. The discount had been applied four times in the past six years.

ASX's Chief Risk Officer also noted two points from PwC's audit which did not result in a finding:

- Some members noted the contrast in information discussed at the July committee meeting regarding the status of the CHES replacement project compared with the announcement three weeks later that the go-live date had been delayed. As the ASX Group Executive, Securities and Payments had noted earlier, ASX's Chief Risk Officer acknowledged this feedback and would seek to be more mindful of this going forward, whilst being cognisant of ASX's continuous disclosure obligations.
- Regarding how ASX Clear manages conflict sensitive matters for access from unaffiliated market operators or clearing and settlement facilities, a member noted some perceptions around discriminatory treatment. PwC reviewed ASX's policies and procedures in relation to how it manages conflict sensitive matters, as well as all communications related to that matter, and found that ASX had adhered with its internal protocols for handling that particular matter.

**Member discussion:**

An industry association member asked ASX's Chief Risk Officer to speak to the Reserve Bank of Australia's (RBA) recently published assessment of ASX against its Financial Stability Standards. ASX's Chief Risk Officer provided an overview of the RBA's annual assessment, including the process and findings. Key focus areas for ASX include:

- Work under the comprehensive management of risk standard – including a response plan to KPMG's review into ASX's enterprise risk management capabilities
- Work related to operational risk around improving project delivery, ensuring the resilience and reliability of current CHES, and enhancements to regulatory reporting
- Work related to governance, including development of a clearer accountability framework off the back of the operating model change in FY21.

A registry member asked if the strengthening of governance arrangements sat with the executive team or the board. ASX's Chief Risk Officer noted it was a combination of board and executive.

ASX would also provide an ASX management response update at the next quarterly industry Risk Consultative Committee in November.

The Chair extended an invitation, following PwC's interviews, for further discussion with members on any topics they wish to discuss.

**b) Annual report on Cash Equity Clearing and Settlement Service Developments**

The ASX General Manager, Equity Post Trade, Securities and Payments noted that ASX's sixth Cash Equity Clearing and Settlement Services Developments Report had been shared with Committee members via the meeting papers. The report summarised service developments and investments ASX had undertaken over the 12 month period ending 30 June 2022, including ongoing work on CHES replacement, a review of the TAS and Product Services legal terms, enhancements to TAS reporting for AMOs and the introduction of electronic CHES holding statements.

**Member discussion:**

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

**AGENDA ITEM 5: SERVICE ENHANCEMENTS**

**a) Update on developments**

The ASX General Manager, Issuer Services, Securities and Payments provided an overview of ASX's issuer services roadmap over the next 12-18 months, noting that whilst this meeting was not an issuer services forum some of the activities had relevance to participants.

Themes for future work include improving the issuer experience through digitisation and workflow changes (as an example the move to electronic statements), and improving the experience for investors who hold stock on HIN (for example the investor communication portal for delivery of electronic statements).

Specifically, ASX was talking to participants about:

- ASX's Primary Market Facility (a service provided to issuers, and facilitated by brokers and participants) – opportunities to digitise manual workflows and enhance functionality
- Offer administration (including takeovers and other offer administration) – opportunities to digitise processes and enhance efficiency (for example, in multi-party workflows)
- Further enhancements to the electronic statements communication portal for investors – including consideration of a request for an API feed of statements direct to brokers and registries, simpler ways for an investor to logon and potentially a live feed of holdings as opposed to a monthly statement

ASX had engaged with a number of participants on these matters to date, and members were invited to engage on any other suggested enhancements to any of the matters raised.

#### **Member discussion:**

A market operator member noted the RBA's comment in its 2022 Financial Stability Standards assessment of ASX regarding settlement facility standard 9.1, that they did not consider the holding statement played a role in meeting that requirement, and asked whether ASX was considering removing the mandatory requirement to issue holding statements. The ASX General Manager, Issuer Services, Securities and Payments noted that CHES holding statements may indeed not have particular use for reconciling holding balances of investors as a daily process, but considered their value to the end investor as a confirmation, on a monthly basis, that ASX has a record of the number of shares in their account. In this context, the market operator member questioned why ASX would not consider making provision of holding statements optional, rather than mandatory. The ASX General Manager, Issuer Services, Securities and Payments noted that under the new pricing model, there is no charge for unlimited electronic statements, and that ASX considers that investors place value in the statements. The market operator member noted they would continue discussion of this matter offline with ASX.

An industry association member noted consistent feedback from annual general meetings that investors like paper statements, and suggested they will need to continue for another 5-10 years.

## **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 December 2022 meeting, and acknowledged that ASX was working towards providing an update on forthcoming change initiatives, in response to feedback that it would be helpful for customers to have further insight beyond the technology initiatives already in train or planned, from a budget and resourcing perspective.

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

#### **Member discussion:**

An industry association member clarified whether Accenture would present their findings on CHES replacement at the December meeting, and the Chair confirmed they would.

The industry association member also clarified the timing of ASX's next (second) ASIC Report 708 consultation, to establish whether that would be a relevant topic for the December meeting, and ASX's Acting Co-head of Markets confirmed it was expected to be released in November 2022, with the deadline for responses under consideration by ASX.

## b) Any other business

The Chair noted four actions:

- ASX to amend the draft minutes from 13 July 2022 meeting to reflect the update provided on the status of the 17 streams of CHES replacement work
- ASX to consider publishing a policy regarding treatment of ETO expiry on a closure day (e.g. late announced public holiday, core technology outage etc)
- ASX to discuss with ASIC competing industry demands with the potential concurrency of consultation on ASIC Report 708 and CHES replacement
- ASX to consider revising the explanation in the Clearing and Settlement Schedule of Fees regarding the circumstances in which a discount is available for Holder/Holding bulk changes.


The Chair thanked the Committee for their contributions and conversation.

## c) Next meeting – 7 December 2022

The next meeting is scheduled for 7 December 2022, at the later time of 4-6pm to accommodate end of year drinks.

The meeting closed at 1.45 pm.

Signed as a correct record of the meeting.

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

Chair

12/12/2022

Date