

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

## Business Committee Meeting

At its 19 July 2023 meeting, the Business Committee was updated on:

- The CHES Special Report published in June 2023, priority areas for the current CHES system, service performance of CHES for the June 2023 quarter, work being done to maintain the stability of existing CHES, and an update on ASX's holistic management of all CHES related items.
- The results of the survey of Business Committee members on the potential transition to T+1 settlement, including proposed next steps.
- A proposed optional fee model for participant sponsored HIN creation and maintenance.
- The CHES replacement project, including Partnership Program, the CHES Replacement Technical Committee and EY's independent expert assurance report.
- The Terms of Reference for the Regulatory Expectations audit, and Code of Practice updates.

### KEY ISSUES DISCUSSED

- The ongoing role and structure of the Business Committee and CHES Replacement Technical Committee in the context of the new Advisory Group being established for strategic matters related to cash equities clearing and settlement.
- The T+1 survey responses demonstrated that there is no consensus among respondents on transition to T+1 settlement at this time, the Committee's desire for continuing active engagement with issues and developments related to settlement cycle compression here and offshore, consideration of timing of any transition to T+1 relative to CHES replacement, the need for adequate forward planning for budgeting to support change proposals, a suggestion that member responses to the survey need to be weighted based on market volume, and member interest to better understand the cost/benefit profile including margin and capital implications.
- Support for ASX's proposed optional fee model for participant sponsored HIN creation and maintenance.
- Interest and discussion around progress and key dates and decision principles for the remainder of the year associated with CHES replacement project.
- Objection expressed by some members with respect to the design and visibility of the CHES Replacement Partnership Program.

### AGREED ACTIONS

All 6 open actions were closed, with dissent from one member recorded against closure of action 23-3-3. Three new actions were raised at the meeting:

1. ASX to consider how it represents figures and statistics in future, in the context of both the T+1 survey and CHES Replacement Partnership Program, for example to consider weighting member responses to reflect market share or size
2. ASX to perform further analysis to articulate benefits of moving to T+1 settlement, including margin and capital savings analysis
3. ASX to re-circulate to members the CHES Replacement Project Objectives discussed at the March 2023 meeting, by way of high-level outline of ASX's principles for decision-making, with elaboration of the objective of supporting opportunities for industry efficiency and growth (as described by the ASX Project Director, CHES Replacement Project at 19 July Business Committee meeting), noting that this objective refers to a replacement system architecture that facilitates certain benefits for the market as a whole (and is not intended to refer to the development of new commercial services by ASX).

### RECOMMENDATIONS

None.

## UPDATE ON RECOMMENDATIONS FROM LAST MEETING

Not applicable.

Minutes from the meeting are attached.

# Agenda

## Business Committee

<b>Date</b>	19 July 2023	<b>Time</b>	12:00pm- 2:00pm
<b>Location</b>	ASX offices – Level 1, 20 Bridge Street, Sydney/MS Teams		
<b>1. Meeting Opening</b>			12:00pm- 12:10pm
a)	Minutes from the 22 March 2023 and 6 April 2023 Business Committee Meetings		
b)	Open actions		
<b>2. Clearing and Settlement Services, Issuer Services</b>			
a.	CHES - Special Report (for member discussion)		12:10pm-12:25pm
	<i>Members are invited to send questions in advance to <a href="mailto:BC.Secretariat@asx.com.au">BC.Secretariat@asx.com.au</a></i>		
b.	Current CHES update		12:25pm-12:40pm
	i.	Intraday margin	
	ii.	House/client segregation	
	iii.	Appropriate functionality	
c.	T+1 settlement		12:40pm-12:55pm
d.	Participant Sponsored HIN Creation & Maintenance Optional Pricing Proposal		12:55pm-1:00pm
<b>3. CHES Replacement project</b>			
a)	Project update		1:00pm- 1:10pm
b)	Partnership Program update		1:10pm-1:20pm
c)	Update from CHES Replacement Technical Committee		1:20pm-1:30pm
d.	CHES Replacement Technical Committee – review into operation		1:30pm-1:40pm
e.	Assurance Program – EY Independent expert assurance report		1:40pm-1:45pm
<b>4. Papers provided in advance to take as read (time for member discussion)</b>			1:45pm-1:55pm
a.	Service Performance: Cash Market Clearing and Settlement		
b.	Maintaining the stability of existing CHES		
c.	Update on ASX's holistic management of all CHES related items		
d.	Regulatory Expectations Audit – Terms of Reference		
e.	Code of Practice updates		
<b>5. Other Matters</b>			1:55pm- 2:00pm
a)	Forward work program		
b)	AOB		
c)	Next meeting – 11 October 2023		

## Action Items\*

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

Item number#	Action	Due date	Status	Owner
22-12-1	Members to provide feedback on the structure, membership, frequency and material to be discussed at the new industry forum	Jul 2023	Completed	ASX and BC Members
22-12-2	ASX to engage with members on the purpose and objectives of the CHES replacement project	Jul 2023	Completed	ASX
22-12-3	ASX to provide any update from ACCC on whether the pricing review will be made public	Mar 2023	Completed	ASX
23-1-1	ASX to provide an update regarding the process for recommendations from the Business Committee to the Boards of ASX Clear and ASX Settlement, including where a recommendation is not adopted	Mar 2023	Completed	ASX
23-1-2	ASX and members to review the Charter of the Business Committee in light of the new CHES Replacement Technical Committee and queries about the making of recommendations	Mar 2023	Completed	ASX and BC Members
23-1-3	ASX to amend the draft Charter of the CHES Replacement Technical Committee to include that the forum will provide input on the scope of the CHES replacement project (i.e. whether the project would be a like-for-like replacement of CHES, or the scope could be changed so as to, for example, extend to additional functionality)	Mar 2023	Completed	ASX
23-3-1	ASX to survey members regarding T+1 settlement, with members to respond as requested, prior to the July meeting	July 2023	Completed	ASX and BC Members
23-3-2	ASX to communicate to eligible entities in mid to late April regarding details of the CHES Replacement Partnership Program	April 2023	Completed	ASX
23-3-3	ASX to confirm details of consultation across the industry prior to the announcement of the CHES Replacement Partnership Program	July 2023	Completed	ASX
23-3-4	ASX to review commentary from its FY23 half-year results investor briefing regarding the CHES Replacement Partnership Program to clarify ASX's position on whether ASX expects to pay out the full \$70 million	July 2023	Completed	ASX
23-7-1	ASX to consider how it represents figures and statistics in future, in the context of both the T+1 survey and CHES Replacement Partnership Program, for example to consider weighting member responses to reflect market share or size	Oct 2023	Open	ASX
23-7-2	ASX to perform further analysis to articulate benefits of moving to T+1 settlement, including margin and capital savings analysis	Dec 2023	Open	ASX
23-7-3	ASX to re-circulate to members the CHES Replacement Project Objectives discussed at the March 2023 meeting, by way of high-level outline of ASX's principles for decision-making, with elaboration of the objective of supporting opportunities for industry efficiency and growth (as described by the ASX Project Director, CHES Replacement Project at 19 July Business Committee meeting), noting that this objective refers to a replacement system architecture that facilitates certain benefits for the market as a whole (and is not intended to refer to the development of new commercial services by ASX).	Oct 2023	Open	ASX

## Business Committee Members

Company	Name	Job Title	Apologies
ABN AMRO CLEARING	*Matthew McMahon	Head of Operations	Adrian Rubin, Chief Executive Officer APAC
AFMA	Damian Jeffree	Senior Director of Policy	
ASX	Val Mathews	Business Committee Chair and Chief Customer and Operating Officer	
ASX	Jamie Crank	General Manager, Trading, Markets	
AIRA	Ian Matheson	Chief Executive Officer	
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	
BNP PARIBAS	Mark Wootton	Head of Custody Product Aust & NZ	
BOARDROOM	Martin Jones	General Manager Corporate Governance & Director	
CBOE	John Williams	Director Australian Equity Operations	
CITI	Christopher Moore	Manager – Direct Custody & Clearing	
CMC	Andrew Rogers	Director of Broking Business	
COMMSEC	Sheridan Thompson	Head of Industry Engagement & Operational Resilience	
COMPUTERSHARE	Scott Hudson	General Manager – Market Liaison	
FINCLEAR SERVICES	David Ferrall	Founder, Managing Director & CEO	
GOLDMAN SACHS	Yen Le	Executive Director	
GIA	Megan Motto	Chief Executive Officer	
HSBC	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	Carrie Barrack	Country Business Manager	
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	*Rajnish Tiwari	Head of Exchange Technology	Steven Larkins, General Manager, SSX Market Operations
THIRD PARTY PLATFORM	*Lee Muco	Chief Operating Officer	Arnie Selvarajah, Chief Executive Officer
UBS	Conor Foley	Senior Business Manager	

\* Delegate

### ASX Management

Name	Job Title	Apologies
Andrew Jones	Acting Group Executive, Securities and Payments	
Hamish Treleaven	Chief Risk Officer	
Dan Chesterman	Group Executive, Technology and Data	Apology
Tim Whiteley	Project Director, CHES Replacement Project	
Sally Palmer	Deputy General Counsel	
Katie McDermott	General Manager, Business Design, CHES Replacement Project	
Diane Lewis	General Manager, Regulatory Strategy and Executive Advisor	
Suzy Munro	General Manager, Securities and Payments Operations	
Sabra Mott	General Manager, Securities and Payments Technology	
Nick Wiley	General Manager, Equity Post Trade and Payments	
Karen Webb	Acting Head of Issuer Services, Securities and Payments	
Ouafaa Daki	Senior Manager, Issuer Services, Securities and Payments	
Con Korkofigas	Senior Manager and Senior Legal Counsel	

### Ernst & Young

Name	Job Title	Apologies
Roberto Fitzgerald	Partner, Financial Services	
Mike Orman	Partner, APAC FS Technology Leader	Apology
Juan Carlos Martin De Los Santos	Director, Technology Risk, Financial Services	

### Observers

Name	Job Title	Apologies
Nathan Bourne	Senior Executive Leader, Market Infrastructure (ASIC)	
Dodie Green	Senior Manager, Market Infrastructure (ASIC)	
Andia Petropoulos	Senior Analyst, Market Infrastructure (ASIC)	Apology
Kylie Stewart	Senior Manager, Financial Market Infrastructure, Domestic and Payments (RBA)	
Tatiana Moiseeva	Lead Analyst, Financial Market Infrastructure, Domestic and Payments (RBA)	
Elizabeth Kandelas	Manager, Financial Market Infrastructure, Domestic and Payments (RBA)	Apology
Gordana Bloom	Senior Analyst, Financial Market Infrastructure, Domestic and Payments (RBA)	Apology

## AGENDA ITEM 1: MEETING OPENING

The Chair welcomed members, delegates, ASX management, Ernst & Young and observers to the meeting. John Williams had replaced Mike Aikins as the representative for Cboe. The agenda and papers were distributed in advance of the meeting.

The ASX Chief Risk Officer acknowledged announcements by ASIC and ASX regarding a new advisory group for strategic matters related to cash equities clearing and settlement services with an initial focus on CHES replacement, chaired by an independent person. The charter, remit, membership and meeting frequency of the Business Committee would remain the same, as would the ability of the Business Committee to raise issues to the boards of ASX Clear and ASX Settlement. An independent chair would also be appointed to the Business Committee, and the Business Committee and new Advisory Group would necessarily interact.

Regarding the new Advisory Group, members had questions about membership (a topic of discussion at an industry roundtable scheduled for 2 August, anticipated to be broad industry representation), ability to have input regarding the independent chair (ASX would consider input), and impact on the CHES Replacement Technical Committee (anticipated to continue to operate as it currently does).

The ASX General Manager, Equity Post Trade and Payments provided an update regarding the annual review of Business Committee membership: Credit Suisse had withdrawn from the Committee given the finalisation of its merger with UBS, and ASX had sought expressions of interest from participants who engage in both clearing and settlement, with six positive responses received, indicating a level of unmet demand for involvement in the Committee. ASX proposed to send a short communication to all clearing and/or settlement participants to request input on the membership structure of the Business Committee going forward. Options include opening membership to all interested parties, capping membership at the current size and introducing a formal rotation arrangement, or no change. Other outcomes of the annual membership review included: Arnie Selvarajah from Third Party Platform had replaced Robert Tesoriero from Bell Potter Securities and Carrie Barrack had replaced Rebecca Hill as the representative for Morgan Stanley.

### a) Minutes from the 22 March 2023 and 6 April 2023 Business Committee meetings

The Chair noted that ASX had received one comment on the draft minutes of the 22 March 2023 meeting, to keep open the action regarding the purpose and objectives of the CHES replacement project (which ASX had amended accordingly). The minutes of the 22 March 2023 meeting were approved without any further changes.

ASX had received no comments on the draft minutes of the 6 April 2023 meeting, which were approved without any further changes.

### b) Open actions

Addressed throughout the meeting and recorded below.

## AGENDA ITEM 2: CLEARING AND SETTLEMENT SERVICES, ISSUER SERVICES

### a) CHES – Special Report (for member discussion)

The ASX Acting Group Executive, Securities and Payments invited questions and discussion on the report published by ASX in June 2023 outlining how ASX is maintaining CHES, as well as questions to Ernst & Young who audited the report.

#### Member discussion:

Members did not raise any questions in respect of the agenda item.

### b) Current CHES update

#### Intraday margining

The ASX General Manager, Securities and Payments Operations provided an update on ASX's assessment of the feasibility of implementing intraday margining of cash market positions in current CHES. ASX had determined that it is possible to commence a regular intraday margining cycle in current CHES, albeit with a reasonable lead time for development and implementation. This would include a period of increased reporting to clearing participants to support their transition to regular intraday margining. A regular intraday calculation with a potential call at 2:00pm each day appears to be the optimal time to balance accumulated exposure to the central counterparty, preparation for batch settlement and providing sufficient time to settle the intraday call before Austraclear end-of-day. ASX would continue to analyse intraday exposures and work with the RBA regarding timing and priority, if the decision were made to move ahead with an intraday call on the cash market.

#### House/client segregation

The ASX General Manager, Equity Post Trade and Payments provided an update on ASX's assessment of the equivalence of protections from the existing cash market account structure to those under a segregated structure; no changes were identified in the past 10 years that caused ASX to question the validity of the prior assessment of material equivalence. Regarding the feasibility of implementing a segregated account structure in current CHES, introducing segregation would necessitate a new transactional workflow in the system to effect the segregation of trades between house and client accounts. ASX had concluded that with respect to current CHES, it would not be prudently feasible to introduce that feature without first being very clear that it was within the capacity of the current system to accommodate it and that if the introduction of this feature was contingent on capacity uplift, implementation would be unlikely to occur until 2028 at the earliest.

In terms of next steps, ASX is obliged to undertake market consultation and report back to the RBA by December 2023.

#### Appropriate functionality in current CHES

Referring to the presentation materials, the ASX General Manager, Equity Post Trade and Payments discussed feedback received to date on functionality (including suggestions for new or enhanced functionality) which at this point in time is assessed as not contingent on the replacement of the system. Next steps include an assessment of what, if any, technical change in the current system would be required and to assess stakeholder support for these changes (with future bilateral engagement flagged).

#### **Member discussion:**

Members did not raise any questions in respect of the agenda item.

#### **c) T+1 settlement**

Referring to the paper and presentation materials distributed in advance, the ASX Acting Head of Issuer Services, Securities and Payments thanked the 23 members who responded to the survey issued in May on the potential transition to T+1 settlement, to provide a foundation for further analysis and next steps. **Open action 23-3-1 was closed.**

ASX's conclusion from the responses is that there is no clear consensus for immediate action at this stage, with a proposal to adopt a wait and watch position and raise it again in July 2024, noting this doesn't mean doing nothing in the meantime (e.g. at a minimum would need to consider implications for CHES replacement). Close observation and learnings from North America would be leveraged over that time, as would a clearer view of CHES replacement and its implementation timeline.

Another theme from the responses was the desire to reduce risk and costs, with a proposal from ASX to consider potential reductions in margin and capital.

Enablers to support a transition to T+1 were discussed, with the acknowledgement that the move from T+2 to T+1 is a much bigger project than the move from T+3 to T+2. The need for planning, coordination and support across the industry was highlighted, with the work being done by industry associations to facilitate discussion welcomed. Many respondents indicated that the move to T+1 in other markets would have an impact on their Australian operations, but most respondents indicated they would be ready for those changes, and indicated they anticipated T+2



settlement could remain viable in Australia for at least five years. A number of suggestions for how ASX could assist the market prior to the transition to T+1 in May 2024 in Canada and the United States were noted, including to play an information sharing role and transparency on exception arrangements.

ASX had begun to analyse exception arrangements once North America moves to T+1; for example, ASX had met with ETF product issuers and a majority had indicated in preliminary discussions they would follow Australian corporate action timetables, and further discussion regarding exempt foreign issuers was required.

#### **Member discussion:**

Noting the mixed views amongst respondents regarding timing, a member asked for ASX's views on timing. The ASX Acting Head of Issuer Services, Securities and Payments noted responses were mixed regarding the relative timing or priority of T+1 and CHES replacement, noting no clear consensus was observed. The Project Director, CHES Replacement Project commented that a transition to T+1 settlement would not occur at the same time as go live for CHES replacement.

An industry association member noted they were still working with their member base to provide their collective input on suggestions for the way forward, and flagged their preference to provide sufficient lead times for industry preparations. Another industry association member suggested holding over discussions until July next year may leave insufficient time for organisations to build costs into their budgets which could cause further delays, and noted discussions around extension of the thinking to T+0.

A member commented that Australia's current position on T+1 represents a missed opportunity due to what has transpired with CHES replacement, and presents risk in Australia being out of step with global markets.

A member suggested the survey results should be weighted by market share (related to trading volume), the Chair agreed to look into this and invited offline bilateral conversations with interested parties, with T+1 updates to continue as a standing agenda item (**action item 23-7-1**).

A member noted their organisation's view that the move to T+2 was a very significant and costly project and they would want to see the positive case made that the benefits of moving to T+1 will outweigh the costs. A member asked whether ASX had done any modelling around margin capital savings (noting it was not as simple as 50 per cent), or when this could be expected. The ASX Chief Risk Officer noted ASX hadn't done a substantive amount of work to date, but agreed to take it away (**action item 23-7-2**).

#### **d) Participant Sponsored HIN Creation & Maintenance Optional Pricing Proposal**

Referring to the paper and presentation materials distributed in advance, the ASX Senior Manager, Issuer Services, Securities and Payments provided an overview of a proposed optional pricing model for sponsored HIN creation and modification. The fee model is subscription based and is intended to support sponsoring participants to transition their investors to receive electronic statements.

The existing fee for sponsored HIN creation and modification is \$1.25 per request and the proposed option is for sponsoring participants to opt into a subscription model where sponsoring participants would be charged a fixed monthly fee, estimated to be around \$0.02 per month per active sponsored HIN and enabling unlimited sponsored HIN creation and modification, if the communication preference of those HINs is email. Where the communication preference of the HINs is mail, participants will be charged \$1.25 as well as the subscription fee.

Next steps include preparation of further information including worked examples, and an invitation for further bilateral engagement.

#### **Member discussion:**

A member asked about the current take-up rate for electronic statements, noting it had been operating for around 18 months. The Acting Group Executive, Securities and Payments advised it was around 100,000 HINs (out of a total of around 3.6 million active HINs).

A member asked about action item 22-12-3 which was closed at the March 2023 meeting (ASX to provide any update from ACCC on whether the pricing review will be made public; see [minutes](#) of 22 March 2023 meeting for response). The

member asked again whether the results of ACCC's review would be made public, noting their understanding based on ASX's update at the March 2023 meeting that the ACCC's review would incorporate a review of issuer services pricing. The Acting Group Executive, Securities and Payments confirmed ACCC was looking at pricing in the context of CHES replacement because there was a fixed cost. Due to changes in the project there will be a new cost base so the assessment is basically on hold until we understand the costs of the new project. ASX anticipates that issuer services would be captured by the proposed competition in the provision of clearing and settlement services (CICS) legislation. Another member asked whether any review of pricing, other than the ACCC review as noted under action 22-12-3, would be related to the implementation of the CICS legislation. The Acting Group Executive, Securities and Payments stated that the optional pricing proposal tabled at this meeting was the only current plan to change pricing. He also noted that ASX takes into account the Regulatory Expectations and future CICS legislation.

A member noted that whilst their organisation didn't currently support the ability to opt-in to electronic statements, they welcomed and supported the new optional pricing proposal and see it as sharing the benefit of the cost savings that will accrue to the sponsoring brokers. The member also expressed interest in the ability for their customers to access electronic statements via the member's own website. The Acting Group Executive, Securities and Payments advised that ASX was looking into this. Another member echoed this sentiment, suggesting an API layer would be welcomed to make it seamless for their clients to access CHES statements and regarding the commercial terms, made a case for more of an incentive for the period when they transition clients across to electronic statements (noting active consent would be required). The ability for email addresses to flow through to share registries (acting as agents of issuers) was noted by another member.

Other members commended ASX on the proposal, citing support for the initiative which makes it easier and more cost effective for end investors to hold securities directly on HIN, and welcoming the proposal.

### AGENDA ITEM 3: CHES REPLACEMENT PROJECT

#### a) Project update

Referring to the paper distributed in advance, the ASX Project Director, CHES Replacement Project noted work continued on track in the current define and plan phase, with a solution decision due in the fourth quarter. Recent focus had been on product definition, business requirements and scope workshops. Commercial processes were also on track, and ASX had issued a request for proposal (RFP) for an experienced solution integrator (irrespective of whether the solution decision is buy or build, noting no decision had yet been made), to provide project management and delivery capability, technology and testing skills and resources, capital markets projects and systems experience and architecture and integration skills and experience.

Regarding **open action 22-12-2** (ASX to engage with members on the purpose and objectives of the CHES replacement project), the ASX Project Director, CHES Replacement Project noted the project objectives previously communicated to members:

1. Implement a CHES Replacement system that meets the requirements of ASX's clearing and settlement facility licences
2. Deliver a supportable technology solution that is enterprise grade and is capable of underpinning the Australian financial market
3. Robust plan to implement CHES Replacement reliably and efficiently
4. Consideration of the impact of our actions on stakeholders
5. Create opportunities for industry efficiencies and growth

Key aspects of these objectives were noted as:

- Needing to modernise the technology underpinning CHES
- Benefits around a modular design

- Global standards – moving to standard interfaces (FIX and ISO) supports competitors entering the market but also international participants joining the market or existing participants moving to more standard vendor software offerings
- Enabling innovation

**The action was closed.**

**Member discussion:**

Regarding the RFP for a solution integrator, a member asked how ASX could put out an RFP when the solution integrator does not yet know what they will be integrating into (the actual solution design that will be used), and whether this implied that ASX was further along in terms of solution design. The ASX Project Director, CHES Replacement Project noted the RFP talked to core skill sets and applied to both solution design options (buy or build). The member clarified whether that meant ASX could not select a system integrator until it had made a solution decision. The ASX Project Director, CHES Replacement Project confirmed the two could be progressed in parallel and ASX would select the solution integrator after the solution design decision.

A member suggested ASX document the additional colour provided around the purpose and objectives of the CHES replacement project, and suggested that whilst it might be difficult to get consensus amongst the diverse stakeholders involved regarding particular solution design, it may be easier to get consensus regarding the principles through which decisions will be made. The member asked how the elements of purpose ASX had articulated translate to principles for a decision making framework which can be referred back to help steer difficult conversations. The ASX Project Director, CHES Replacement Project confirmed the project objectives already communicated served the same purpose as those principles.

Specific to open action 22-12-2, a member sought clarification whether the project is architecturally ring-fenced to a like-for-like replacement or whether the strategy is to use the clearing and settlement replacement to enable further commercial activities. The Acting Group Executive, Securities and Payments confirmed the remit of the project is to replace the existing system and to ensure the new system is secure and resilient, and to the extent there is an ability to enhance and provide additional associated services, these would be optional. The member suggested this could be written into the purpose statement, to be clear it is an architectural replacement that needs to be designed to facilitate a safe and efficient market. The Chair noted that ASX would take an action to clarify the architectural focus of the project objective related to creating opportunities for industry efficiencies and growth, as discussed at both the Business Committee and CHES Replacement Technical Committee earlier in 2023 and elaborated on by the ASX Project Director, CHES Replacement Project at today's meeting (**action item 23-7-3**).

**b) Partnership Program update**

The ASX General Manager, Business Design, CHES Replacement Project provided an update regarding the two key parts of the Partnership Program, the Development Incentive Pool and Rebate Pool.

The Development Incentive Pool aims to foster a closer working relationship with those that are developing technology to interface with CHES. Up to \$55 million has been allocated, with an initial payment of up to \$20 million. As at July 2023, 78 per cent of those invited to participate in the Development Incentive Pool had accepted, and the remaining 22 per cent have responded with requests for extensions which have been granted. Payments began from 31 May for those that accepted the invitation. The final size of the future payments under the Development Incentive Pool will be determined following the final solution design and will be linked to the achievement of key project milestones. ASX would consult with the market on those key milestones.

The Rebate Pool is focused on ASX customers and provides a rebate to participants of their clearing and settlement fees. Rebates totalling \$15 million will be provided and payments will be made in August 2023, dependent on the amount of clearing and settlement fees paid by those participating in the Partnership Program. As at 19 July 2023, 65 per cent have accepted the invitation to participate and 30 per cent of organisations have been given an extension until 28 July 2023 (given the August payment, noting further extensions will delay payments). Five per cent of those invited have declined the offer to participate and the reasons related to either a decision for that organisation to exit

the market or because the amount of the pro rata rebate did not justify the administrative process of accepting the rebate.

Regarding **open action 23-3-2** (ASX to communicate to eligible entities in mid to late April regarding details of the CHES Replacement Partnership Program), the ASX General Manager, Business Design, CHES Replacement Project advised that ASX announced the Partnership Program in February 2023. On 28 April 2023, ASX published a media release providing an update on the Partnership Program, and separately issued a request for feedback on the proposed eligibility criteria for the Development Incentive Pool to various stakeholders. ASX considered the feedback received, and announced the final eligibility criteria for the Partnership Program via an industry webinar on 17 May 2023, and in a media release on 18 May 2023. On or around 24 May and 1 June 2023, ASX issued invitation letters to stakeholders eligible for the Development Incentive Pool and Participant Rebate Pool respectively. **The action was closed.**

Regarding **open action 23-3-3** (ASX to confirm details of consultation across the industry prior to the announcement of the CHES Replacement Partnership Program) the ASX General Manager, Business Design, CHES Replacement Project advised that ASX held discussions with numerous stakeholders following the decision to pause the CHES replacement project. ASX's goal was to better understand stakeholder perspectives so that ASX could properly consider the best way forward. Those discussions informed the design of what ultimately became the Partnership Program. Given the bilateral nature of those discussions, ASX did not propose to identify the stakeholders consulted at that time. However, those discussions covered various topics such as the importance of recognising the role of software vendors and registries, the different types of approaches individual organisations have taken to CHES replacement, the likely effort for ASX's stakeholders to continue their cooperation on the project for longer than expected, and in some cases the approximate costs incurred by those stakeholders to date. These discussions helped ASX to formulate certain aspects of the Partnership Program, including the eligibility criteria for the Partnership Program. Since that time, ASX had conducted a formal request for feedback process in relation to the specific eligibility criteria for the Development Incentive Pool component of the Partnership Program. ASX would also seek input from eligible Program Participants in determining the additional payment milestones under the Development Incentive Pool, once the revised project plan has been finalised. **The action was closed.**

A member noted their disagreement, because ASX had not disclosed who it had consulted with. The member noted that they did not support the Partnership Program, citing a lack of detail about what the program would look like. The member also noted that they had an issue with the timing, that it happened between Business Committee meetings (stating that in their view it had not gone through a process to be approved, which represented a governance issue). The member also questioned what analysis had been done by ASX of industry costs, and took issue with the way ASX had presented the statistics around feedback provided on the proposed Development Incentive Pool criteria. The member noted they were counted as a single party for the purpose of the results, but stated that they represent 15 clearing and settlement participants. The member questioned what would happen to the Partnership Program, should the new Advisory Group being established disagree with the program. The Chair noted ASX would leave this for the new Advisory Group to consider, and if there was disagreement it would be considered at that point. The ASX General Manager, Business Design, CHES Replacement Project acknowledged the comments from the member, and noted ASX was balancing diverse views across the market. It was also noted that ASX's presentation of the feedback had been representative of those parties ASX had engaged with directly, and that ASX had subsequently engaged in bilateral discussions with those parties who were not supportive of the Partnership Program.

Another member suggested number and size may assist in addressing the concern about the statistics, and asked for ASX's estimate of total industry costs on the CHES replacement project. The ASX General Manager, Business Design, CHES Replacement Project noted the Partnership Program is forward looking and is not a program to compensate the industry for costs borne to date, and that ASX did not have an estimate of total industry costs and was not undertaking work to confirm this figure.

Given similar comments in the context of the T+1 survey results around weightings of results, the Chair took an action for ASX to consider how it represents figures and statistics in the future, noting the comments around the scale and size of parties providing responses (**action item 23-7-1**).

A member asked how the criteria for the development incentive will change as the solution gets firmed up, noting this may cause organisations to change how they integrate and their own future plans. The ASX General Manager, Business Design, CHES Replacement Project noted ASX would take into account what portion of work done by industry stakeholders to date could be reused when the final solution design is determined, in the context of the up to \$70 million available for use by the program. The ASX Project Director, CHES Replacement Project also noted that the additional payment milestones under the Development Incentive Pool would depend on the implementation plan which ASX would consult on. The member reiterated that depending on the solution, an organisation may change their strategy which would have implications for eligibility for Partnership Program payments, hence it would be important to revisit this discussion at that time.

Regarding **open action 23-3-4** (ASX to review commentary from its FY23 half-year results investor briefing regarding the CHES Replacement Partnership Program to clarify ASX's position on whether ASX expects to pay out the full \$70 million), the ASX General Manager, Business Design, CHES Replacement Project advised that ASX had noted in its half-year results announcement released on 16 February 2023 that the final size of the Development Incentive Pool will depend on the chosen solution design. The additional payments under the Development Incentive Pool will be based on the achievement of project milestones, which will be dependent on the final CHES replacement solution design and implementation plan. There is still some work to do to finalise those matters. ASX has previously communicated to the market its intention to announce the solution design in the fourth quarter of 2023. **The action was closed.**

A member sought confirmation that this means ASX is not committing to pay out the full \$70 million, rather the total amount to be paid will depend on the solution design, and the ASX General Manager, Business Design, CHES Replacement Project confirmed this was correct. The member suggested ASX might need to change its language around the \$70 million noting that some had understood that ASX would be paying out that amount. The Chair noted ASX had been consistent in its statements about the Partnership Program that the total size was up to \$70 million. The ASX General Manager, Business Design, CHES Replacement Project noted that up to \$35 million was eligible to be paid out by August. The member noted their own position that they would not have sufficient information to participate in the Partnership Program by August and would be reluctant to participate until they knew the solution design, and the ASX General Manager, Business Design, CHES Replacement Project confirmed ASX would grant the entity a further extension until they were ready to make a determination.

A member asked whether ASX would disclose in its results how much it had paid out under the CHES Replacement Partnership Program, and the Chair took this question on notice.

### **c) Update from CHES Replacement Technical Committee**

Referring to the paper distributed in advance, the ASX Project Director, CHES Replacement Project provided an overview of the three CHES Replacement Technical Committee meetings held since the last Business Committee meeting, on 12 April, 10 May and 7 June respectively. Three scope refinement workshops had also been held, which have developed business canvases on scope objectives to help the Technical Committee make recommendations on which scope items to bring to the Business Committee for deliberation. It was noted that scope items could be addressed either by CHES Replacement, within existing CHES, or outside of CHES altogether, and on the latter AFMA would host a registries forum.

#### **Member discussion:**

A member asked whether the new Advisory Group would have an impact on ASX's timeline for evaluating the solution design options and finalising the solution design by the end of 2023. The ASX Project Director, CHES Replacement Project confirmed ASX was still working to that timeline, and was not expecting it would change based on (potential) feedback from the new Advisory Group, however flagged that ASX would go into a period of industry consultation once it had announced the solution design and the new Advisory Group may feed into that engagement and consultation process.

A member questioned the timing of industry providing input to the engagement and consultation process after the solution decision announcement, noting they may not be in a position to assess the technological solution in terms of

capacity and cost to industry at that point in time and the path forward will already be decided at that point in time. The ASX Project Director, CHES Replacement Project noted once ASX had determined a viable solution that can be delivered safely, it then needed to consult with industry on timing, industry impact, scheduling and relative priorities (e.g. T+1 settlement).

#### **d) CHES Replacement Technical Committee – review into operation**

The Chair noted this agenda item related to **open action 22-12-1**, and that no feedback was received regarding the structure, membership, frequency and material to be discussed at the CHES Replacement Technical Committee at the March 2023 meeting. The conversation at the start of this meeting around the new Advisory Group was noted and the Chair suggested this agenda item be revisited at the October 2023 meeting.

The ASX Project Director, CHES Replacement Project confirmed ASX had received a small amount of feedback specific to this agenda item, and acknowledged the high amount of engagement with members of the CHES Replacement Technical Committee throughout the six meetings to date. Continuous feedback was being provided regarding the operation of the CHES Replacement Technical Committee, including via the first pulse survey. In terms of the role of the CHES Replacement Technical Committee going forward, ASX continued to see a role in coordinating and importantly, providing input to the Business Committee, which would be supplemented by the use of focus groups to work through detail as needed.

##### **Member discussion:**

Members did not raise any questions in respect of the update. **The action was closed.**

#### **e) Assurance Program – EY Independent expert assurance report**

##### **Member discussion:**

A member asked how EY's report was an assurance report when it stated the work was not performed in accordance with generally accepted auditing or other assurance standards. The EY Partner, Financial Services advised the assurance report is such in terms of general intention, to promote confidence in the work ASX is doing, however EY could not technically call the work an 'audit' based on auditing standards and the lack of a framework for assessment against. The report is carried out to the quality standard of an audit but cannot be termed an audit, and the use of the term assurance report is based on term used in the licence condition from regulatory agencies.

A member asked EY how many organisations outside of ASX they had directly engaged with to date (around 18 months). The EY Partner, Financial Services confirmed their engagement to date had been with suppliers of assurance services that have been done to date, with external stakeholder engagement to date being through attendance at Business Committee, and that direct stakeholder engagement remains part of the work plan. The member suggested the lack of direct engagement with external parties to date was a blind spot.

### **AGENDA ITEM 4: PAPERS PROVIDED IN ADVANCE TO TAKE AS READ (TIME FOR MEMBER DISCUSSION)**

#### **a) Service Performance: Cash Market Clearing and Settlement**

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

#### **b) Maintaining the stability of existing CHES**

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

#### **c) Update on ASX's holistic management of all CHES related items**

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

#### **d) Regulatory Expectations Audit – Terms of Reference**

The ASX Chief Risk Officer noted PwC had been engaged to perform the annual external audit of ASX's compliance with regulatory expectations, led by Deanna Chesler (Partner). The Committee was invited to contact Deanna Chesler

from PwC if they wished to volunteer to participate in an interview. Further information on the scope of the audit and the regulatory expectation could be found in the supporting paper, and the findings of the audit would be presented at the next meeting.

**Member discussion:**

A member requested PwC attend the next meeting to present their findings, which the ASX Chief Risk Officer agreed to.

**e) Code of Practice updates**

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

**AGENDA ITEM 5: OTHER MATTERS**

**a) Forward work program**

Referring to the forward work program included in the meeting papers, the Chair welcomed feedback and suggestions for agenda items for future meetings.

**b) Any other business**

Members did not raise any other business.

The Chair closed all six open actions, noting comments of dissatisfaction on some actions. Three new actions were raised, as recorded in the action item table.

The Chair thanked the Committee for their contributions and conversation, and the ASX Chief Risk Officer thanked the Chair for their commitment and efforts as Chair for the past two years, noting this would be the Chair's final meeting.

**c) Next meeting – 11 October 2023**

The next meeting is scheduled for 11 October 2023.

The meeting closed at 2.00 pm.

Signed as a correct record of the meeting.

A handwritten signature in black ink that reads 'Paul Bay'.

\_\_\_\_\_  
Chair

12 October 2023  
\_\_\_\_\_

Date