

Business Committee

Presentation materials

22 March 2023

Committee members are reminded to have regard to their obligations under competition law. In particular, please note that the Competition and Consumer Act prohibits a corporation from engaging with one or more persons in a concerted practice that has the purpose, effect or likely effect of substantially lessening competition.



CHES Action Program

CHES regulatory requirements and ASX CHES Action Program

14th and 15th December 2022

Media Release

ASIC – RBA Further Regulatory Response Regarding the ASX CHES Replacement Program

Number **2022-43**

Date **15 December 2022**

Today ASIC and the Reserve Bank of Australia (**RBA**) (the **regulators**) have taken further action to ensure that all necessary steps are taken by ASX to support and maintain current CHES until its replacement is successfully implemented.

- > ASIC direction power notice
 - Special Report into existing CHES operational resilience
 - Audited by EY

- > RBA letter of expectations
 - Current Chesh
 - CHES Replacement
 - Governance
 - Engagement

<https://www.rba.gov.au/media-releases/2022/mr-22-43.html>

CHES regulatory requirements and ASX CHES Action Program

22nd February 2023

Wednesday 22 February 2023



23-035MR Further ASIC regulatory response on CHES Replacement and ASX's program capabilities

ASIC has taken further action to ensure that ASX adequately responds to the findings and recommendations of the [ASX CHES Replacement Application Delivery Review](#) by Accenture (**the External Review**) and that all necessary steps are undertaken by ASX to uplift identified gaps and deficiencies in relation to the ASX Group's portfolio, program and project management frameworks.

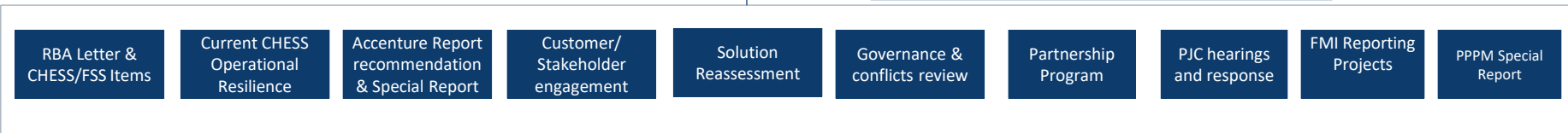
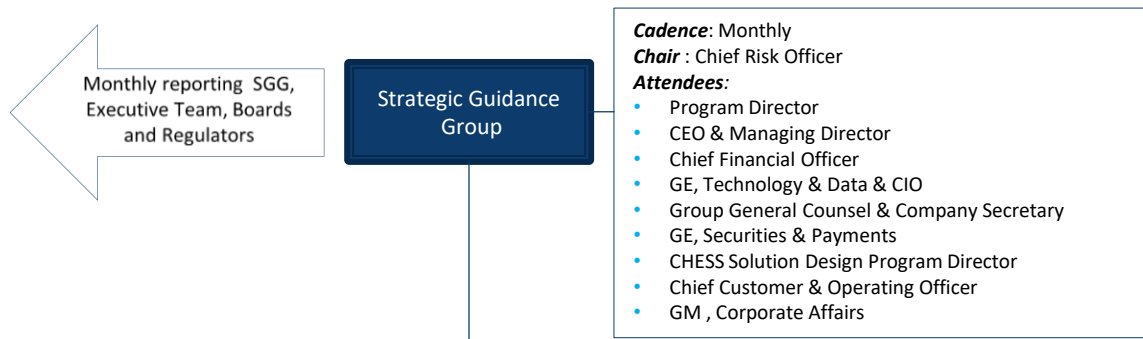
> ASIC direction power notice

- Special Report into response to Accenture recommendations
- Audited by EY

- Special Report into Project, Program, Portfolio Management
- Audited by EY

<https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-035mr-further-asic-regulatory-response-on-ches-replacement-and-asx-s-program-capabilities/>

CHESS Action Program – Strategic Guidance Group



SGG Terms of Reference

Core purpose of the SGG is to provide ongoing oversight and direction for the Program, driving momentum for successful delivery.

The SGG provides a forum to:

- > Escalate risks that may impact successful delivery of the project outcomes
- > Escalate blockers that are inhibiting delivery
- > Ensure outcomes stay aligned to achieving the Program's Vision objectives and Benefits
- > Ensure ongoing alignment to the overall organisational strategy

CHES Action Program – workstreams

Category	RBA letter and CHES/FSS items	Current CHES operational resilience	Accenture report recommendations & Special Report	Customer/Stakeholder engagement	Solution Reassessment	Governance and conflicts review	Partnership Program	PJC response and planning	FMI Reporting	PPPM Special Report
Purpose	Range of issues on current and new CHES to address outstanding FSS items Intraday margining and comingling of house/client	Resilience of current CHES to 2028. Deliver Special Report and EY audit. Continue with work program	Close out 45 Accenture recommendations. CHES specific and ASX wide. Deliver Special Report.	Coordinated customer and stakeholder engagement	Undertake solution reassessment and present business case to CS Board for approval	Undertake expert review of CHES conflicts arrangements and publish governance arrangements	Develop program to encourage ongoing project involvement and jointly meet milestones	Respond to PJC questions on notice and plan for next hearing	Provision of prudential reporting to the RBA pursuant to FSS requirements	Deliver PPPM Special Report covering details set out in ASIC notice. Audit by EY
Time period	Likely through to end of 2024	Through to 2028	Likely through to end of 2023. Special Report by 30 June 2023. Audit by 31 July 2023	Ongoing	Likely completed by fourth quarter 2023	Review likely completed by end of June 2023. Overall response ongoing through to end 2024	2023 and ongoing	Responses to questions from 23 Feb hearing due on 16 March.	Project expected to complete by Jun 2023. One aspect is extended until March 2024	Special Report by 30 Sept 2023. Audit by October 2023
Reviews or Assurance	Comments in the RBA's FSS	EY	EY	N/A	EY	HSF	N/A	N/A	Comments in the RBA's FSS	EY
Public reports	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A	Yes



Current CHES priorities

Suzy Munro, GM Securities &
Payments Operations

Nick Wiley, GM Equity Post Trade
& Payments

Three continued priority areas for current CHESS

- > Operational resilience
- > Regulatory compliance
- > Appropriate functionality

Operational resilience of current CHES is paramount

CHES Program

- > Implementation of initiatives required to ensure the safe and reliable operations of current CHES until replaced within ASX's risk appetite:
 - Technology Operations: Ongoing operations including scalability, obsolescence of end-to-end technology, security, resilience & continuity
 - Business: Customer, Operations
 - Regulatory requirements

Special Report to ASIC on current CHES

- > Matters to be addressed in the Special Report: (1) Ongoing operation (including scalable capacity), (2) Security, (3) Business continuity, (4) Governance
- > The Special Report will be audited by Ernst & Young
- > Special Report due to ASIC by 28 April (and Audit Report by 31 May)

Regulatory compliance with RBA's expectations

RBA Letter of Expectations dated 15 December 2022

- > ASX to explain its plans for implementation of system features that are required for compliance with the Financial Stability Standards (FSS) and that were planned for CHES replacement (e.g. ISO 20022 messaging)
- > ASX to assess feasibility of the following matters by June '23:
 - Implementing intraday margining of cash market positions in current CHES
 - Implementing a segregated House/Client account structure in current CHES

Regulatory compliance with RBA's expectations

Plans for implementation of FSS-related system features previously planned for CHES replacement (e.g. ISO 20022 messaging)

- > ASX has commenced its analysis of FSS-related system features and made no decisions to date
- > Plans will take into account considerations such as:
 - Impact on current CHES performance and resilience
 - Market impact
 - Impact on systemic risk reduction
 - Reusability of any change/investment if it was brought forward
- > Stakeholder engagement prior to finalisation of plans – expected in Business Committee later in 2023
- > ASX to justify reasons for its plans

Regulatory compliance with RBA's expectations

Feasibility assessment of implementing intraday margining of cash market positions in current CHES

- > By June '23 an assessment of:
 - Implementing intraday margining of cash market positions in current CHES
- > Approach
 - Establish current approach taken by ASX Clear for Cash Market Margin calculation
 - Describe characteristics that influence risk, specific to the cash market
 - Evaluate options and potential phases of implementation
 - Short period of soft sounding with representative sample of Clearing Participants ahead of completion of the feasibility assessment
 - Explore risks and benefits of options to transition to a regular intraday call for CMM

Regulatory compliance with RBA's expectations

Feasibility assessment of implementing a segregated House/Client account structure in current CHES

- > By June '23 – Assessments of:
 - whether the protections from arrangements utilising a commingled house/client account structure remain materially equivalent to those provided by omnibus or individual client segregation, and
 - the feasibility of supporting this feature in current CHES
- > By December '23 – After consulting with industry stakeholders:
 - a plan for implementing omnibus or individual client segregation, or
 - a satisfactory explanation of how any alternative arrangements satisfy the requirements of the Financial Stability Standards
- > Key points:
 - Further updates at future Business Committees; bilateral engagement from interested parties is welcome
 - Formal industry consultation process planned for second half of 2023

Appropriate functionality in current CHES

Current CHES needs to meet the needs of the market until it is safely replaced

- > Consideration will be given to adding new features to current CHES
- > Requests or suggestions for the introduction of new features can be sent to Nicholas.Wiley@asx.com.au or BC.Secretariat@asx.com.au
- > Propose to bring any suggestions or requests back to Business Committee for consideration and assessment of stakeholder support
 - For consideration: Industry Technical Committee to review proposed new features in current CHES and feed into Business Committee consideration

Next steps

Stakeholder engagement

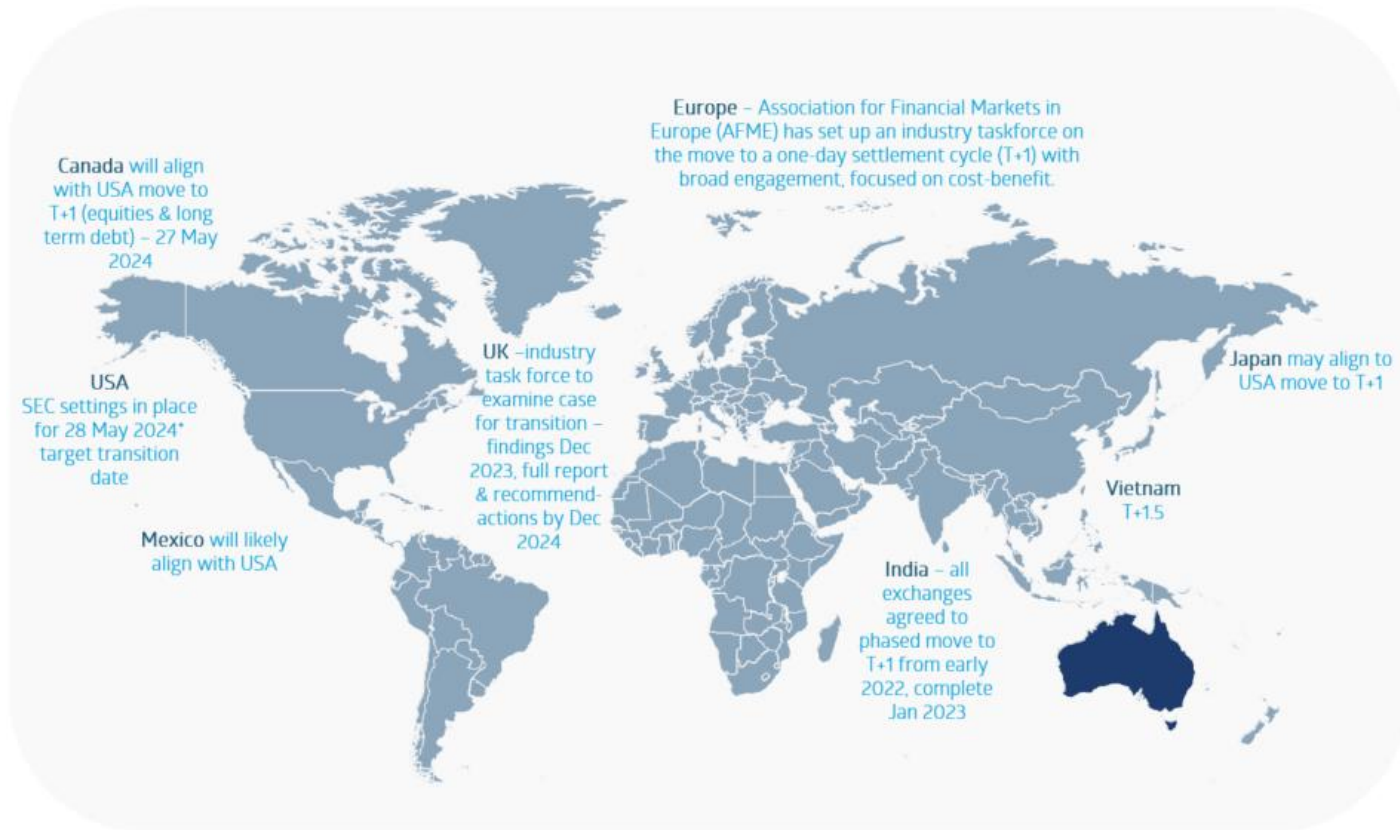
- > Plans for implementation of FSS-related system features previously planned for CHES replacement
 - Engagement through Business Committee planned for H2CY23
- > Intraday margining
 - Soft soundings in Q2CY23 to inform feasibility assessment
- > House / client segregation
 - Formal industry consultation process planned for H2CY23
- > Bilateral engagement welcome at any time
 - Nicholas.Wiley@asx.com.au
 - Suzy.Munro@asx.com.au



Cash equities T+1 Settlement

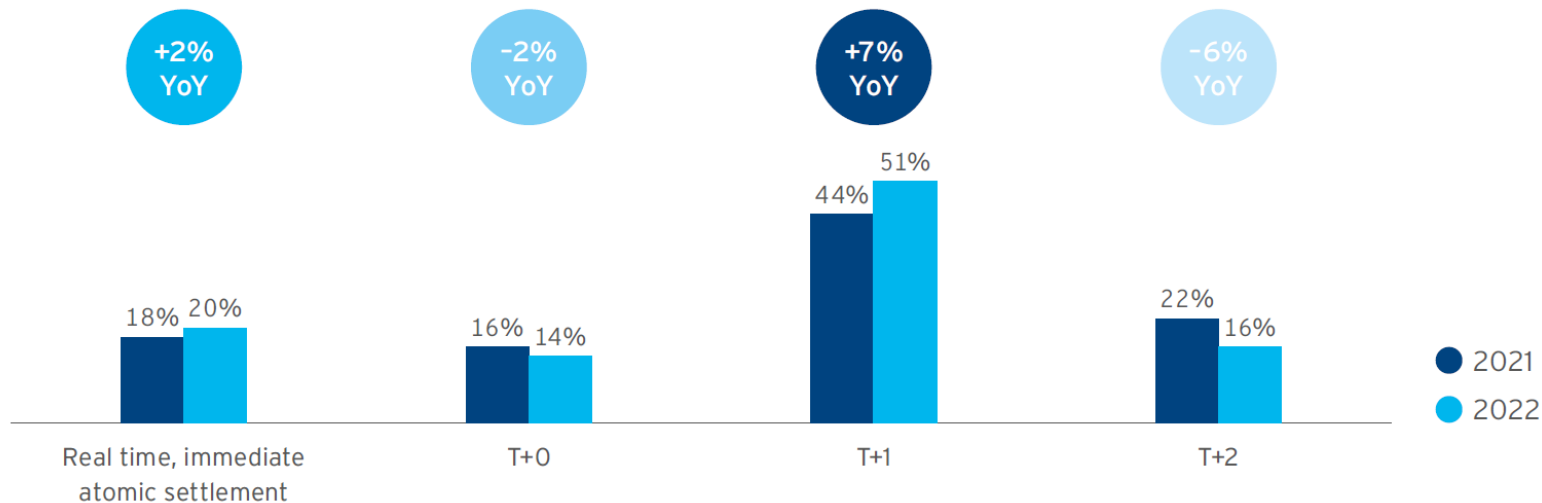
01 Markets implementing or considering a change to T+1 settlement

Equities focused



02 Global market participants expectation of change

Citi's 2022 survey reveals what market participants expect to be the prevailing settlement timeframe for equities in five years' time, compared to 2021 survey responses



Question: By 2026, what do you expect to be the prevailing settlement timeframe for equities?

Source: Citi white paper Securities Services Evolution 2022

03 Potential benefits

- Facilitate greater efficiency in investment and trading processes, including trade affirmations
- Encourage further technical and operational change, automation in post trade
- Global standardization of settlement cycles, especially zones that are very interconnected (e.g. USA, Canada, Mexico)
- For participants - reduces time based settlement risk - lowers clearing risk, therefore clearing margins etc.
 - > FMIs/CSDs predict a 1 day reduction in settlement could reduce margin calls from 41 to 60%*
- More efficient use of capital, improve cash management, increase liquidity
- Finality of settlement for buyer/seller improves, therefore greater certainty in decision making
- Regulatory considerations regarding reduction of systemic risk

*Source: Citi white paper Securities Services Evolution 2021

04 Considerations for markets that haven't transitioned to T+1

- > Due to time zone differences – impacts to buy and sell side firms (for example in Asia and Europe), and their service providers
 - Changes to operating, treasury and client service models to support client trading in a shortened settlement environment
 - Extended operational hours to meet other market time zone deadlines
 - Compressed timeframes for trades in T+1 markets
 - reconciliations and operational processes to support settlement effectively needed on trade date
- > Funding - ability to manage FX in a timely manner if operating in different time zones
- > Complexities for securities lending
- > Adverse impact on settlement – will there be an increase in fails?
- > Cross border settlement of securities that may be dual listed or have baskets of foreign underlying securities (e.g. ETFs, ADRs)
- > Corporate action processing

05 Considerations for Australian market

Impact of other major markets moving to T+1 (if Australia does nothing)

USA/Canada

> Corporate actions:

- Current state – ex/record date periods match Australia for most events/issuers
- For T+1 – ex/record date on same day in those markets

> Trade confirmations & preparations for settlement:

- Compressed timeframes for trades in those markets - reconciliations and operational processes to support settlement effectively needed on trade date.



Australia

> Corporate actions:

- Could be initial confusion on ex dates/transition
- Corporate action timetables for Australian listed exempt foreign or quoted products (e.g. ETFs) with US/Canada underlying may not match ASX Listing Rule timetables (i.e. non-standard)
- ASX may not be able to support* non-standard timetable events (same as experienced for US lag in transition from T+3 to T+2/some exceptional ETFs)
- Compressed reconciliation and response timeframes for **corporate action** elections on foreign stock holdings by Australian holders/agents; may be more manual processes if ASX is unable to support* certain dual listed issuer corporate action events.

> Trade & settlement (in other markets):

- Participant readiness for international coordination to support cross border **trades** and clients – require faster response and confirmation times, efficiency in processing, funding, impact of time zones.

*Support usually includes capture of corporate action event, market information dissemination, support in CHES, any quotation basis change on Trade – where relevant.

06 Next steps - action for members

ASX will survey members for high level view on potential transition to T+1; summarised feedback to be discussed at July meeting

Question themes:

- > Impact to your operations by transition to T+1 in other markets, while Australia remains on T+2
- > Supportive of transition to T+1 or not
- > Expected benefits
- > What would potentially need to change to support a transition to T+1
- > Preferred timing
- > How long do you think your organisation would need to be ready for a transition
- > Scope
 - securities: equities and debt?
 - markets – Australia and NZ?
 - corporate actions?



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