

Agenda

Business Committee

Date	11 October 2023	Time	12:00pm- 2:00pm
Location	ASX offices, 20 Bridge Street, Sydney/MS Teams		

1. Meeting Opening	Action	Presenter(s)	Time 10 mins	Page
a. Welcome, apologies and Acknowledgement of Country, new Chair	Noting	Andrew Jones & Chair		5
b. Minutes of 19 July 2023 meeting	Approval	Chair		6
ITEMS FOR PRESENTATION			90 mins	
2. Clearing & Settlement Services, Issuer Services				
a. T+1 settlement	Discussion	Karen Webb	10 mins	7
b. Participant Sponsored HIN Creation & Maintenance Optional Pricing Proposal - update	Discussion	Ouafaa Daki & Karen Webb	10 mins	39
c. Cash market House/Client segregation	Discussion	Nick Wiley	5 mins	47
3. CHES replacement project				
a. Project update	Discussion	Tim Whiteley & Katie McDermott	10 mins	48
b. CHES Replacement - Technical Committee scope recommendations	Recommendation	Tim Whiteley	35 mins	52
4. BC Member initiated item(s) – No requests received.				
5. Governance				
a. Membership structure survey results	Discussion	Nick Wiley	10 mins	63
b. Advisory Group (Verbal update)	Discussion	Andrew Jones	10 mins	66
QUESTIONS SESSION – ITEMS NOT FOR PRESENTATION			15 mins	
	Action	Attendee(s)	Time	Page
6. Clearing & Settlement Services, Issuer Services				
a. Operational Performance: Cash Market Clearing and Settlement	Noting	Suzy Munro		67

b. Maintaining the stability of existing CHES	Noting	Sabra Mott		75
c. Update on CHES action program	Noting	Hamish Treleaven		78
7. CHES replacement project				
a. Partnership Program update	Noting	Katie McDermott		81
8. Regulatory expectations				
a. Management Accounts FY23	Noting	Nick Wiley		83
b. Annual Growth Threshold	Noting	Nick Wiley		84
c. Annual Report on Cash Equity Clearing and Settlement Services Developments	Noting	Nick Wiley		85
d. Regulatory Expectations FY23 Audit	Noting	Hamish Treleaven		95
9. Meeting closing	Action	Presenter(s)	5 mins	Page
a. Open actions	Approval	BC Secretariat		98
b. Forward work program	Noting	BC Secretariat		100
c. Any other business	Discussion	Chair		
d. Next meeting – 6 December 2023	Noting	Chair		

Business Committee Members (31)

Chair (1)

Company	Name	Job Title	Apologies
	Paul Rayson	Independent Chair	

Clearing & Settlement Participants (15)

Company	Name	Job Title	Apologies
ABN AMRO CLEARING	Adrian Rubin	Chief Executive Officer APAC	
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	
CITI	Christopher Moore	Manager – Direct Custody & Clearing	
CMC	Andrew Rogers	Director of Broking Business	
COMMSEC	Stephen Norton*	Chief Operating Officer	Sheridan Thompson, Executive Manager, Industry Engagement & Operational Resilience
FINCLEAR SERVICES	Leigh Conder	Chief Operating Officer	
GOLDMAN SACHS	Marton Laszlo*	Executive Director	Yen Le, Executive Director

J.P. MORGAN	Craig Twentyman	Custody Product Head Australia & New Zealand, Executive Director	
MACQUARIE GROUP	James Indge	Cash Equities Business Manager	
MORGANS	Daniel Spokes	Director, Client Support Services	
MORGAN STANLEY	Carrie Barrack	Country Business Manager	
THIRD PARTY PLATFORM	Arnie Selvarajah	Chief Executive Officer	
UBS	Conor Foley	Senior Business Manager	

Settlement Only Participants (2)

Company	Name	Job Title	Apologies
HSBC	Toni Icevski	Head of Client Services, Securities Services	
NAB	Anita Mead	Head of Business Management, Self Directed Wealth	

Approved Market Operators (4)

Company	Name	Job Title	Apologies
ASX	Jamie Crank	General Manager, Trading, Markets	
CBOE	John Williams	Director Australian Equity Operations	
NATIONAL STOCK EXCHANGE (NSX)	Chan Arambewela	Chief Operating Officer	
SYDNEY STOCK EXCHANGE (SSX)	Steven Larkins	General Manager, SSX Market Operations	

Industry Associations (6)

Company	Name	Job Title	Apologies
The Australian Financial Markets Association (AFMA)	Damian Jeffree	Senior Director of Policy	
Australasian Investor Relations Association (AIRA)	Ian Matheson	Chief Executive Officer	
Australian Custodial Services Association (ACSA)	Andrew Gibson	ACSA Director and Executive Sponsor, ACSA Operations Working Group	
Australian Shareholders' Association (ASA)	Fiona Balzer	Policy & Advocacy Manager	
Governance Institute of Australia (GIA)	Megan Motto	Chief Executive Officer	
Stockbrokers and Investment Advisers Association (SIAA)	Judith Fox	Chief Executive Officer	

Registries (3)

Company	Name	Job Title	Apologies
BOARDROOM	Martin Jones	General Manager Corporate Governance & Director	
COMPUTERSHARE	Scott Hudson	General Manager – Market Liaison	
LINK MARKET SERVICES	Peter Jackson	Chief Operating Officer	

* Delegate

ASX Management

Name	Job Title	Apologies
Clive Triance	Group Executive, Securities & Payments	Apology
Andrew Jones	General Manager, Securities & Payments	
Hamish Treleaven	Chief Risk Officer	
Tim Whiteley	Project Director, CHES Replacement Project	
Sally Palmer	Deputy General Counsel	
Con Korkofigas	Senior Legal 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	Senior Manager, Issuer Services, Securities and Payments	
Ouafaa Daki	Senior Manager, Issuer Services, Securities and Payments	

Ernst & Young

Name	Job Title	Apologies
Roberto Fitzgerald	Partner, Financial Services	
Mike Orman	Partner, APAC FS Technology Leader	

Observers

Name	Job Title	Apologies
Benjamin Cohn-Urbach	Acting Senior Executive Leader, Market Infrastructure (ASIC)	
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)	
Tatiana Moiseeva	Lead Analyst, Financial Market Infrastructure, Domestic and Payments (RBA)	
Elizabeth Kandelas	Manager, Financial Market Infrastructure, Domestic and Payments (RBA)	
Gordana Bloom	Senior Analyst, Financial Market Infrastructure, Domestic and Payments (RBA)	



Committee	Business Committee
Meeting date	11 October 2023
Agenda title	New Independent Chair
Agenda Item No.	1a
Purpose	To introduce the new Independent Chair to the Business Committee
Prepared by	Andrew Jones, General Manager, Securities & Payments
Action	For noting
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

Since its establishment in 2013, the chair of the Business Committee has been an ASX executive. As foreshadowed in the ASX media release dated 14 July 2023 and at the 19 July 2023 Business Committee meeting, an Independent Chair, Mr Paul Rayson has now been appointed to the Business Committee. Mr Rayson's appointment was approved by the ASX Limited Board and the Boards of ASX Settlement Pty Limited and ASX Clear Pty Limited on 25 September 2023.

Independent Chair

Mr Rayson has worked in the financial services industry for over 20 years and has extensive experience in investment markets, technology, retail banking, risk management and insurance. He is currently the Chief Executive Officer of Hearts & Minds Investments Limited and is the former Managing Director of both CommSec and Colonial Mutual Life Assurance Society Ltd.

Mr Rayson has also held a number of CFO and governance positions across large financial services businesses. Prior to financial services, he held senior roles in Chartered Accounting and Consulting firms specialising in corporate advisory and strategy.

Mr Rayson holds a Commerce degree and is a Fellow of the Institute of Chartered Accountants and a member of the Australian Institute of Company Directors.

Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Minutes of 19 July 2023 meeting
Agenda Item No.	1b
Purpose	To present the draft minutes of the previous meeting for approval of the Business Committee
Prepared by	Business Committee Secretariat
Action	For approval of the Business Committee
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

The draft minutes of the 19 July 2023 Business Committee meeting (available at <https://www.asx.com.au/content/dam/asx/about/business-committee-agendas/2023/asx-business-committee-draft-minutes-19-july-2023.pdf>) were distributed to members on 16 August 2023 for review. No comments on the draft minutes were received from members by the deadline of 6 September 2023.

The Business Committee is requested to approve the draft minutes.

Committee	Business Committee
Meeting date	11 October 2023
Agenda title	T+1 settlement
Agenda Item No.	2a
Purpose	To provide members with an update on plan of work to consider potential transition to T+1 settlement
Prepared by	Karen Webb, Senior Manager, Issuer Services, Securities and Payments
Action	For discussion
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

At the July Committee meeting, ASX shared details of the member survey conducted in May 2023. The results of the survey showed that there is no clear consensus among Committee members at this time on the preferred timing of a transition to T+1 settlement in Australia. However, Committee members did make clear at the July meeting their 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, and the need for adequate forward planning for budgeting to support change proposals.

ASX continues to monitor global transitions to T+1 settlement, particularly readiness for the US and Canada transition targeted for May 2024. Mexico is now seeking regulatory approvals to also transition at the same time. The European and UK markets are still assessing the costs/benefits and are also monitoring the transition in the US and Canada.

Additionally, and as noted in the 19 July meeting, ASX continues to work on a number of perspectives related to global transitions and the consideration for any proposed transition in Australia, including:

1. Preparation for implementation of T+1 settlement in other markets – local impact:

- Monitor readiness for the target implementation in the US and Canada in May 2024. To assist with this we have sought insights from The Value Exchange, who have been engaged by DTCC, TMX CDS (The Canadian Depository for Securities) and a number of global industry associations to survey key stakeholders globally on preparations for the North America changes and provide insights to the market from such surveys. In August ASX emailed members to invite participation in Value Exchange’s latest survey - a global pulse check on T+1 readiness. ASX will provide a verbal update at the meeting on the latest results and indicators for readiness.
- ASX is reviewing the potential exceptions/impacts to Australian stakeholders from the transition in the US and Canada - including corporate action for some foreign listed entities, and product creation; and planning communications to stakeholders and clear guidance on exception management. ASX expects to provide more detail on these points at the December meeting.

2. Transition to T+1 settlement, considerations for Australia:

- **Assessing key benefits – focused on reducing counterparty risk and potential cost and capital savings.** ASX appreciates the discussion and feedback at the last meeting, with the following action noted due for discussion at the December meeting:

“ASX to perform further analysis to articulate benefits of moving to T+1 settlement, including margin and capital savings analysis”. ASX has extracted the required data and is about to commence the analysis of the margin changes for a move from T+2 to T+1 settlement. ASX is consequently on track to present this information at the December meeting. The analysis to identify default fund capital savings is more complex and will be provided at a meeting in 2024.

- **Assessing industry feedback on proposed transition to T+1 - survey results, weighted findings**

As discussed at previous meetings, ASX's view is that any decision to adopt T+1 settlement in Australia and the timing of adoption will require broad consensus of industry and further and more detailed consultation.

At the July meeting a suggestion was made that the results of ASX's recent T+1 survey of Committee members should be weighted to reflect the relative market share of each respondent.

ASX has reviewed the T+1 survey results by weighting the input of each respondent (using each respondent's contribution to clearing and settlement revenue in FY23 as a convenient proxy for market share or volume), and taking into account their stakeholder type categorisation. ASX notes the survey responses were anonymous, unless contact details were provided. We have included weighting for those organisations that provided ASX with contact details (the count of respondents remains unchanged, including anonymous responses in each stakeholder group). The categorisation of type of organisation is based on the information provided by the survey respondent.

To re-cap – ASX received responses from 23 members. 15 respondents were categorised as clearing and settlement participants and 1 respondent categorised as an account participant representing 80.3% of FY23 clearing and settlement revenue, and 3 respondents were categorised as settlement participants, representing 8.5% of clearing and settlement revenue, in total 88.8% of revenue. In order to present a like for like comparison, weightings were not applied to input provided by other stakeholder categories (such as industry associations or AMOs). Not all respondents answered every question so not all responses will total 23 in number or 88.8% in weighting.

# of responses	Stakeholder group (as nominated by respondent)	% share of C&S revenue
15	Clearing and settlement participants, including account participant ("C&S")	80.3%
3	Settlement participants (custodians) ("SP")	8.5%
1	Market Operator	n/a - anonymous
3	Industry associations	n/a – cannot determine how many stakeholders represented and may duplicate individual responses
1	Share registry	n/a
23	Total	88.8%

The percentage weightings by revenue contribution have been added to the survey presentation document, available in Attachment 1.

The following table summarises the original key results from the survey, with additional weighting information ordered by highest ranking. A commentary on the weightings follows the table.

Survey question	Survey response options	Original results by count of responses	Results by weighting – C&S revenue
Can the Australian market continue to operate efficiently on T+2 settlement for a period of time	Yes	18	C&S: 77%; SP: 5.5%; Total: 82.5%
	No	1	C&S: 3.4%
For how long do you think T+2 settlement will remain viable in Australia	3-5 years	8	C&S: 36.3%; SP: 5.5%; Total 41.8%
	6+ years	3	C&S: 26.9%
	1-2 years	7	C&S: 13.7%
Ranking of importance of potential benefits for a transition to T+1 settlement	Highest ranking	“potential cost and capital savings for clearing participants” - 10 Refer to attachment and below commentary for more details	“potential cost and capital savings for clearing participants” – C&S: 53.8%
Size of costs of transition to T+1 settlement	Large	5	C&S: 29.5%
	Small	5	C&S: 21.9%; SP: 3%; Total 24.9%
	Very large	3	C&S: 23.5%
	Moderate	6	C&S: 5.5%; SP: 5.5%; Total 11%
Preferred settlement period, if shortened	Wholesale move to T+1 settlement:	17	C&S: 58.7%; SP: 8.5%; Total 67.2%
	No change – remain on T+2 settlement finality	2	C&S: 19.6%
	Settlement optionality + T+1 settlement finality:	1	C&S: 2.1%
	Settlement optionality + T+2 settlement finality	0	0%
Do you think further operational efficiencies or changes are possible or required to support a transition to T+1 settlement	Yes	15	C&S: 60.7%; SP: 8.5%; Total: 69.2%
	No	5	C&S: 19.7%
Which is the most important initiative	Transition to CHES replacement is higher priority	9	C&S: 33.8%
	Equally important	8	C&S: 30.5%, SP 3%; Total: 33.5%
	Transition to T+1 is higher priority	5	C&S: 16%; SP 5.5%; Total: 21.5%
Time to prepare for a transition to T+1 settlement	18 months	6	C&S: 39%; SP: 5.5%; Total 44.5%
	2 years	8	C&S: 21.6%
	1 year	6	C&S: 13.7%; SP: 3%; Total 16.7%
	2 years+	1	C&S: 6.1%
Aligning with NZ, debt markets	Yes	11	C&S: 44.8%; SP: 3%; Total 47.8%
	Too early to say	7	C&S: 20%; SP 5.5%; Total: 25.5%
	No	3	C&S: 7.7%

The weighting of responses has revealed the following conclusions:

- **Continuing to operate on T+2 settlement, and for how long this will remain viable:** 82.5% of respondents by weighting indicated that Australia could continue to operate on T+2 settlement for some time – over a range of up to 6+ years, with the majority (41.8%) indicating a period of 3-5 years.
- **Ranking of importance of potential benefits for a transition to T+1 settlement:** C&S and SP customers were reasonably aligned in their ranking of potential benefits, though some benefits were obviously more important to C&S participants (such as cost and capital savings and standardisation) versus SP participants ranking settlement outcomes more highly. The results are summarised below, as ranked, high to low:
 - o **Potential cost savings and capital savings** for clearing participants: customers representing 53.8% of revenue ranked this highly, all C&S participants.
 - o **Reducing counterparty risk, resulting systemic risk:** C&S customers representing 47.4% of C&S revenue ranking this second highest, and 21.9% of C&S and SP revenue ranked as first.
 - o **Standardising to global settlement practices:** the weightings slightly elevated the important of this benefit higher, compared to previous survey results based on number of responses. This benefit is seen as 2nd/3rd most important benefit based on revenue weighting.
 - o **Settlement outcomes achieved more quickly:** With weighting this ranking also shifted slightly higher, and was seen as more important by SPs.
 - o **Driving greater post trade operational and process efficiencies:** by weighting, results were spread across the prioritised results and was a higher priority for SP customers.
 - o **Trade activity is not restricted by post trade risk management:** the weightings confirmed previous results where this was the lowest ranked potential benefit.
- **Size of costs of transition to T+1 settlement:** While results were spread across the four categories, SP customers by weighting indicated lower costs, while C&S participants representing 58.5% of revenue indicated moderate to very large costs.
- **Preferred settlement period, if shortened:** Customers representing 67.2% of revenue (C&S and all SP) agreed that any transition should be a wholesale move to T+1 settlement. C&S participants representing 19.6% of revenue indicated a preference to remain on T+2 settlement.
- **Do you think further operational efficiencies or changes are possible or required to support a transition to T+1 settlement:** Customers representing 69.2% of revenue (C&S and all SP) indicated changes would be needed. C&S customers representing 19.7% of revenue didn't think change was required.
- **Which is the most important initiative – T+1 settlement or CHES Replacement:** The results by weighting support the previous results by number of respondents, though SP customers were more supportive of moving to T+1 earlier or at the same time as CHES replacement.
 - o **Transition to CHES replacement is higher priority** – C&S customers representing 33.8% of revenue ranked this as highest
 - o **Equally important:** customers representing 33.5% of revenue (C&S: 30.5%, SP 3%) ranked this as highest. Though we note previous comments that ASX would not anticipate a change at the same time, and this would create resourcing strains for participants.
 - o **Transition to T+1 is higher priority** – customers representing 21.5% of revenue ranking this as highest (C&S: 16%; SP 5.5%)
- **Time to prepare for a transition to T+1 settlement:** The weightings by revenue do present a different outcome compared to the original survey results based on number of responses. SP customers indicated they could be ready more quickly – within 18 months, while C&S customers were spread across the timeframes, though most indicated readiness in 18 months (C&S: 39%; SP 5.5%; total 44.5%) and the majority of respondents could be ready within two years in total.

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- **Aligning with NZ, debt markets:** The weighting of results by revenue agreed with the results by number of respondents. Customers representing 47.8% of revenue indicated that Australia should align with NZ; 25.5% said it was too early to say and 7.7% (C&S only) indicated alignment wasn't important.

Questions for discussion at the meeting:

Does the outcome of the weighting analysis as summarised in this paper change your view of the survey questions or conclusions drawn from the survey?

Referring to pages 10 and 11 of the survey results presentation regarding potential benefits of a transition to T+1 settlement, ASX notes that respondents did not call out whether different settlement timeframes in US (T+1) and Australia (T+2) would be likely to affect capital flows / investment into Australian markets. Members are invited to comment on how significant this consideration is in formulating the case for T+1 settlement in Australia.

ATTACHMENT(S)

Attachment 1: T+1 survey responses with weightings

11 October 2023 ASX Business
Committee meeting –
Agenda Item 2a

Potential transition to T+1

Business Committee member survey

Summary of responses

July 2023 (updated October 2023 with weighting
by C&S revenue)



ASX

Contents

01 – Summary of respondent organisations

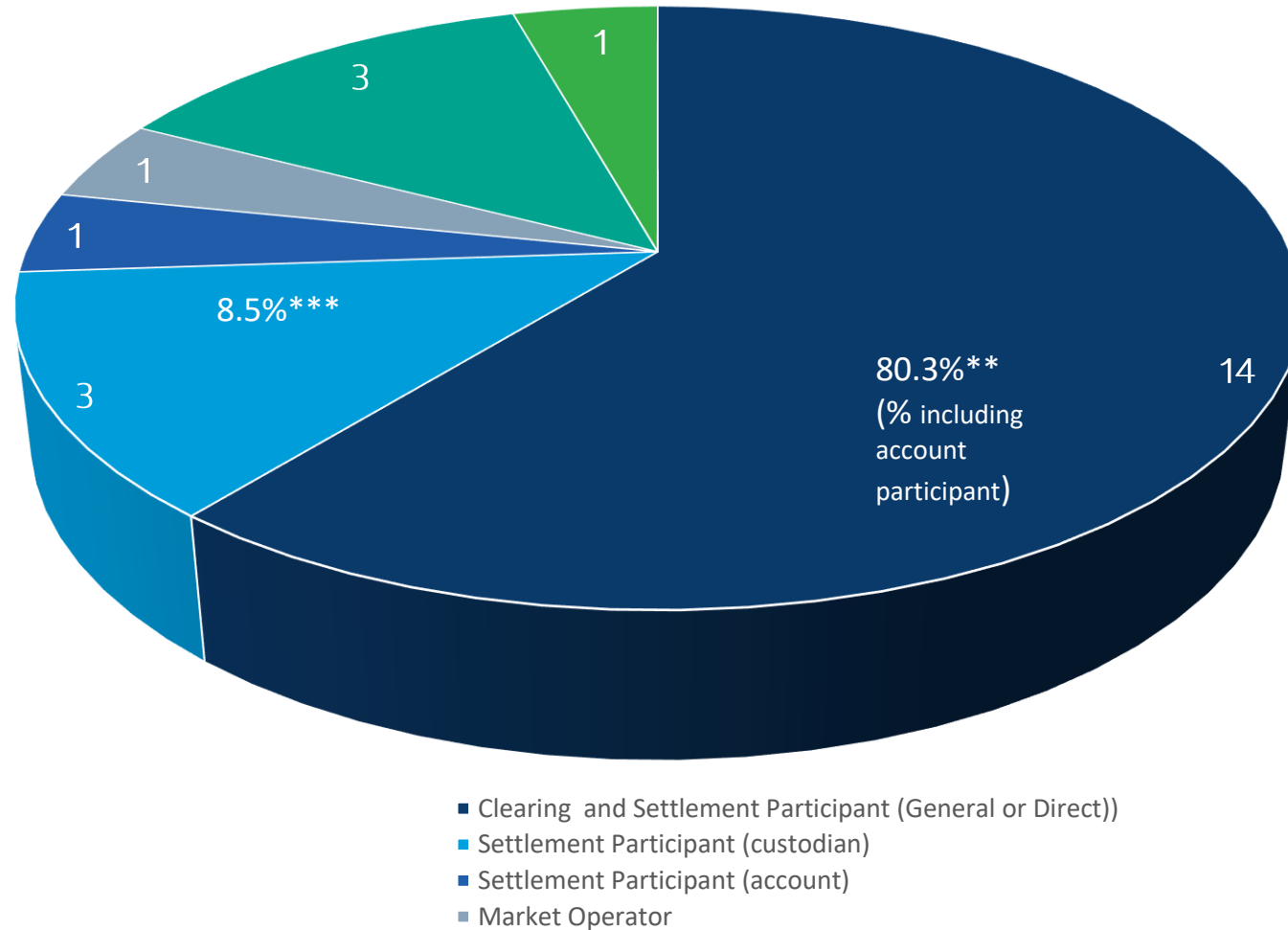
02 – Impact of the transition to T+1 settlement in other markets on Australian operations

03 – Proposed transition to T+1 settlement


04 – Conclusions for discussion, next steps

01 Summary of respondent organisations

33 members invited to provide a response; 23 responses received
Responses are anonymous, all questions not mandatory*
Stakeholder groups represented



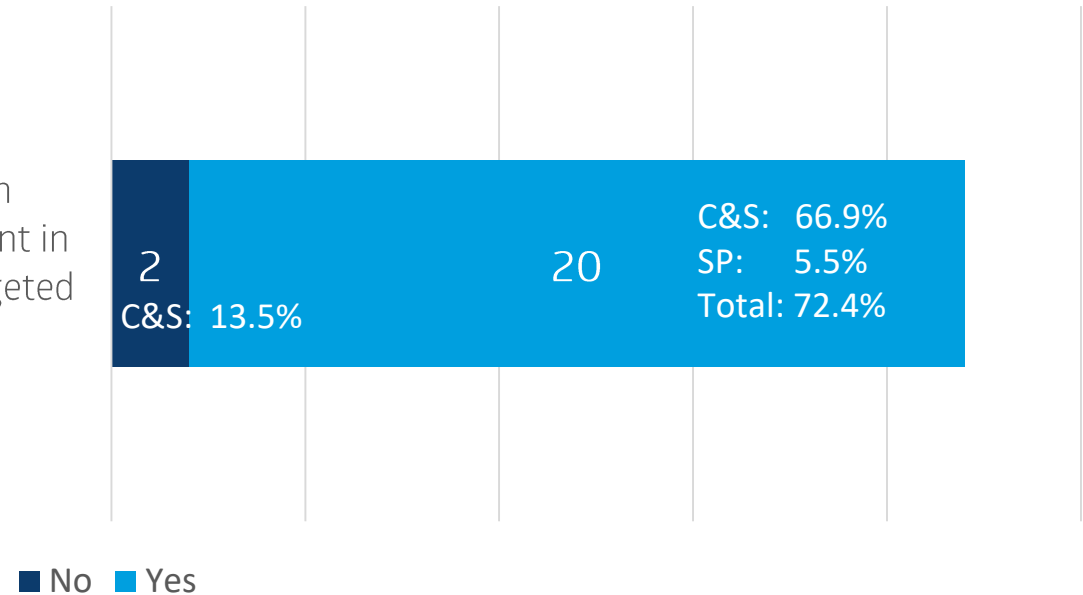
*not all respondents answered every question so not all responses with a tally add up to 23
**to be referred to as “C&S” for % weighting on responses – representing % of C&S revenue
***to be referred to as “SP” for % weighting on responses – representing % of C&S revenue



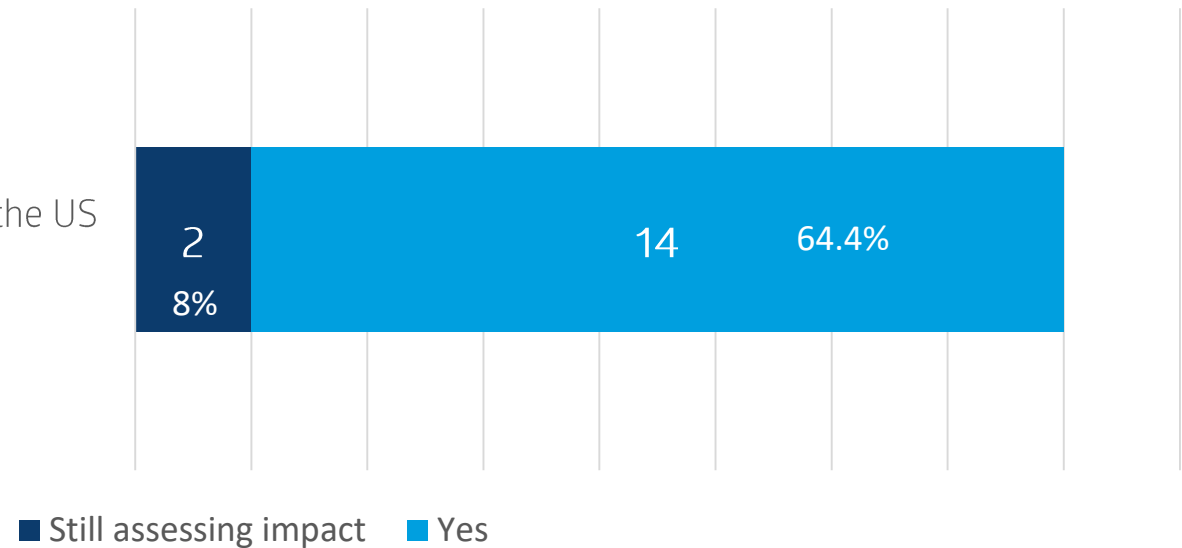
02 - Impact of the transition to T+1 settlement in other markets on Australian operations

02 Impact of the transition to T+1 settlement in other markets on Australian operations

Will your organisation & its settlement operations in Australia be impacted by the transition to T+1 settlement in other markets, for example in the USA and Canada targeted for implementation in May 2024?

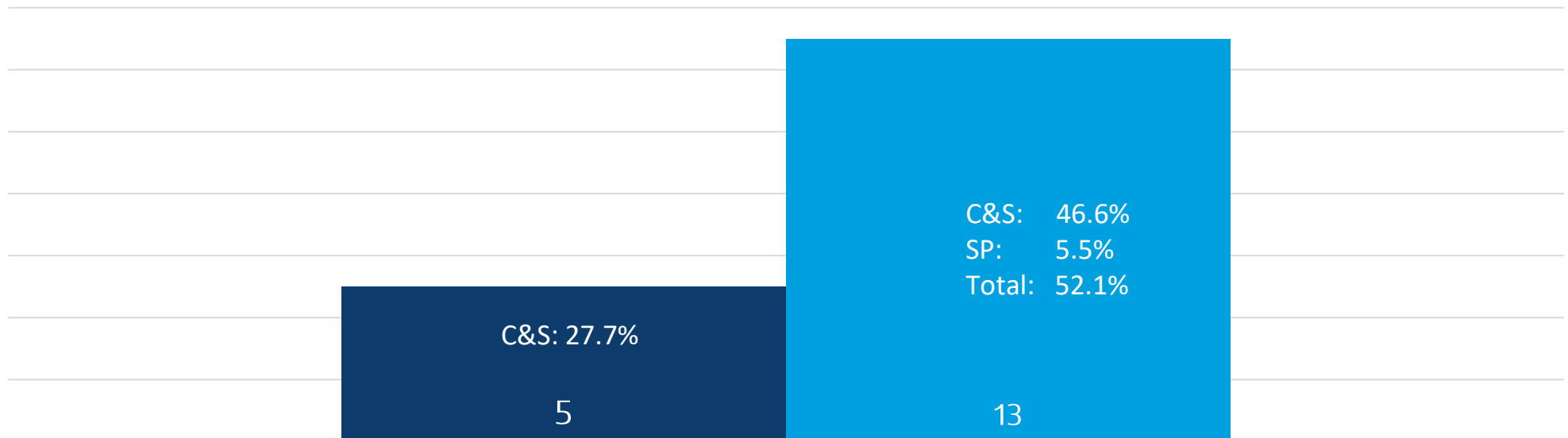


Are you prepared, or will you be ready for the US implementation date?



02 Impact of the transition to T+1 settlement in other markets on Australian operations

The transition to T+1 settlement in the US and Canada (as an example) may impact the ability of ASX to support certain corporate actions. Exempt foreign issuers operating in Australia and the US (or structured products that have US underlying securities) may follow US timetables and announce corporate actions with ex and record date on the same date. ASX may not be able to capture and disseminate structured information about those events, and therefore not support the event in CHESS. As a matter of practice ASX will publish a market information notice to advise stakeholders of events that cannot be supported.



Keeping in mind the exception described above will these exceptions impact your organisation's operations or customer support?

■ No ■ Yes

02 Impact of the transition to T+1 settlement in other markets on Australian operations

You have indicated your organisation will be impacted, please explain in what way?

What are the impacts to your organisation's operation's/customer support/other impacts?

Is there anything else you think ASX should do to help market participants prepare for the implementation of T+1 settlement in other markets?

Trade activities:

- X border settlements / international prime brokerage flow
- Impact to ADR conversion timeframes
- Keeping track of fungible holdings in US/Australia during different settlement periods – may impact settlement
- Time zone helps Australian participants somewhat to meet foreign deadlines
- Procedural changes
- Reliance on international custodians
- Need more information on ETF creation/timing

Post trade activities:

- FX considerations to fund settlement
- Turnaround times for issuer to CHESS transfers and conversions and SRN enquiries
- If no protection for unsettled trades (re CAs) this will increase manual activities and associated risks
- Management of client cut-offs/preparation in readiness for settlement
- Encourage Share Registries to shorten shunts/conversion timeframe for dual listed securities. (Current window 24 - 48 hours). Same day conversion will assist with dual listed security settlement and timely processing CAIP entitlement.

Corporate actions:

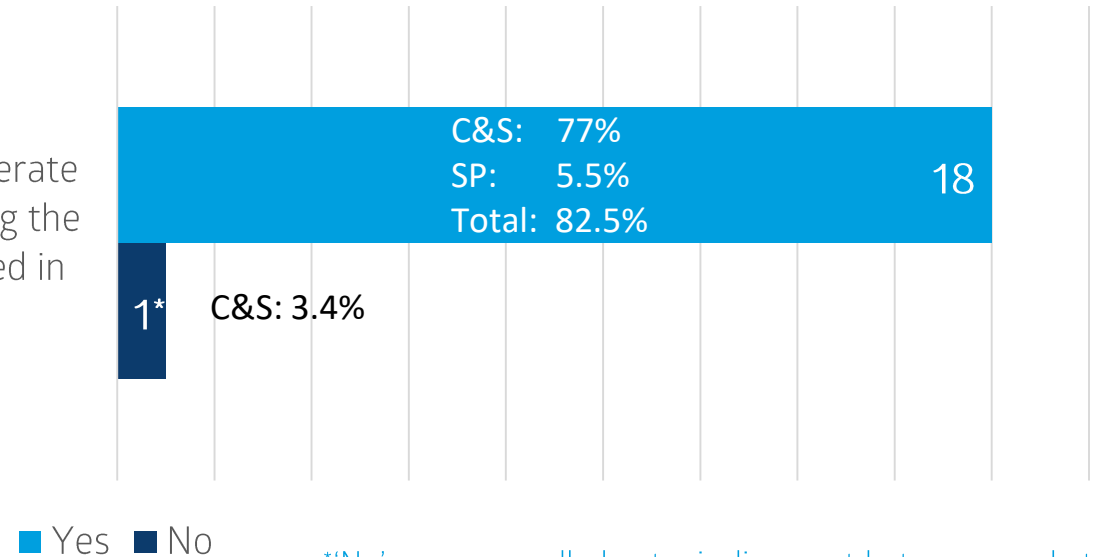
- How to protect client entitlements for unsupported corporate actions
- Suspend trade during ex periods for issuers following T+1 timetable
- Australian holders' opportunity to respond to US based events on reduced timeframes
- Expectation that all events are available in ReferencePoint files
- Be clear on impact to ETFs, ADRs, CDIs; or how would ASX otherwise inform the market.

Suggestions for ASX:

- build awareness more broadly
- build awareness with issuers/impact - which securities are impacted/what settlement/CA regime will they follow (e.g. dual listed vs. exempt foreign, ETFs)
- ASX provide regular communications re arrangements
- describe in more detail how ASX impact will be practically managed
- ASX should take leadership in moving market to T+1 expeditiously

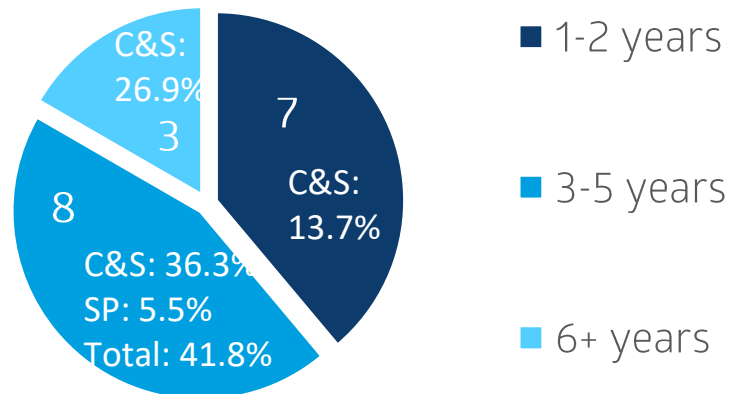
02 Impact of the transition to T+1 settlement in other markets on Australian operations

Do you think the Australian market can continue to operate efficiently on T+2 settlement for a period of time, noting the possible impacts from other market transitions covered in earlier questions?



*'No' response called out misalignment between markets

For how long do you think T+2 settlement will remain viable in Australia?



A large graphic on the left side of the slide, consisting of a white triangle pointing right towards the center, and a blue triangle pointing left towards the center, meeting at a diagonal line.

03 – Proposed transition to T+1 settlement

03 T+1 settlement

There are a number of benefits that have been called out by other markets to support the implementation of T+1 settlement. Some of these benefits were also important in the consideration of Australia's move to T+2 settlement in 2016.

Please rank the potential benefits in order of importance to your organisation

	Ranking:					
	1	2	3	4	5	6
Benefit:	# of respondents for ranking/% of C&S revenue:					
Reducing counterparty risk for individual investors, participants and the central counterparty, resulting in reduced systemic risk for the market as a whole	5 C&S:13.4% SP: 8.5%	12 C&S: 47.4%	1	1	0	0
Standardising to global settlement practices	4 C&S: 13.1%	3 C&S: 22.9%	6 C&S: 18.1% SP: 3%	2	2	2
Driving greater post trade operational and process efficiencies	0	2 C&S: 6% SP: 5.5%	5 C&S: 16.8%	4	6 C&S:33.3%	2
Potential cost and capital savings (e.g. capital requirements, cash margin requirements) for Clearing Participants	10 C&S: 53.8%	2	1	3 C&S: 9.5%	3 C&S: 13.1% SP: 5.5%	0
Trade activity is not restricted by post trade risk management	0	0	0	2 C&S: 13.2%	5 C&S: 19.5%	12 C&S: 47.7% SP: 8.5%
Settlement outcomes are achieved more quickly, including access to capital	0	0	6 C&S: 31.9% SP: 5.5%	7 C&S: 35.2%	3	3

03 T+1 settlement

In addition to the benefits described above, are there any other benefits your organisation has identified to support the adoption of T+1 settlement?

Additional benefits:

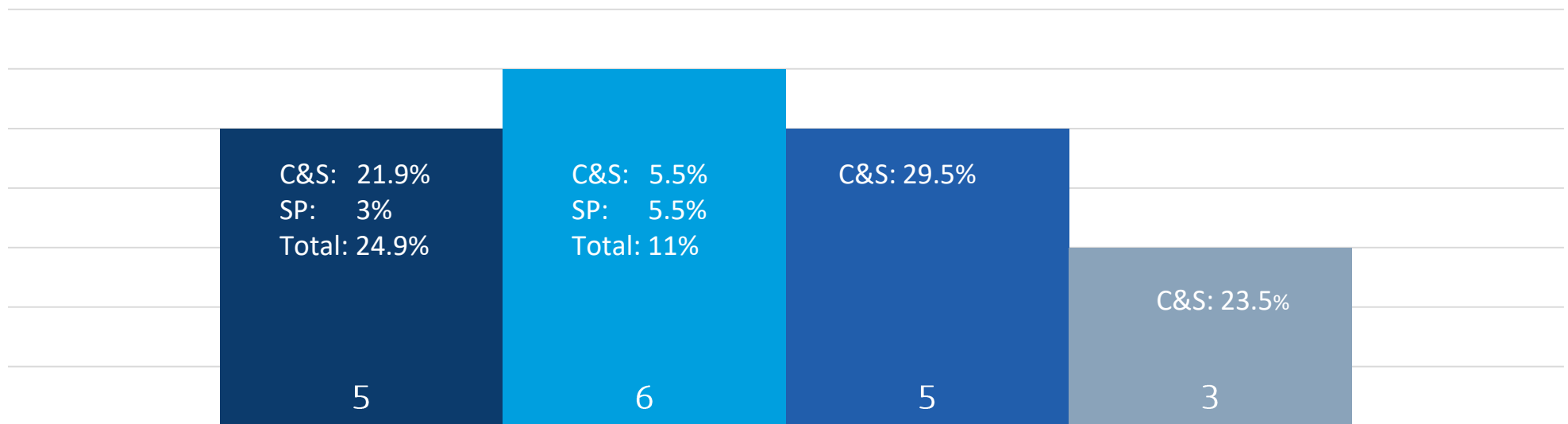
- Alignment of FX processes globally for markets on T+1
- Markets in sync
- Global customers expectation that Australian market will align to global standard
- Moves the market one step closer to settlement on T
- Aligns cash equities with ETO settlement cycle – resulting efficiencies
- If corporate action cycle is aligned with the settlement cycle – efficiencies in reducing exceptional trades
- Reduction of credit risk
- Any clearing & settlement fee reductions passed on to market participants by ASX as a result of reduced capital requirements
- Profound need to instruct trades accurately on T+0 basis will drive back-office settlement efficiency /automation opportunities

Concerns:

- Detrimental for custodians working in multiple markets – would need institutional investors to provide trade allocations much earlier (currently late in the day or morning of T+1); impact on fails

03 T+1 settlement

While there may be benefits associated with the adoption of T+1 settlement, do you think there would be any costs to the market or your organisation?

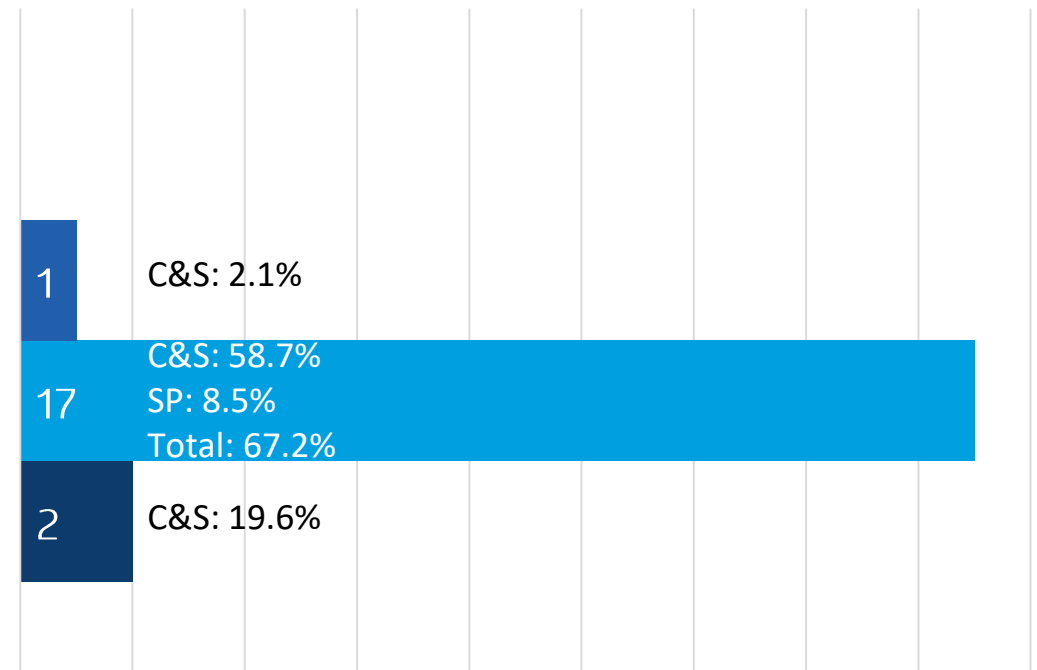


How would you quantify the cost of transition to your organisation and to the market – small, moderate, large or very large?

■ Small ■ Moderate ■ Large ■ Very Large

03 T+1 settlement

If the settlement period is to be shortened, do you think it should be shortened to a fixed T+1 period, or instead consider settlement optionality* with either T+1 or T+2 settlement finality?



- Settlement optionality + T+2 settlement finality
- Settlement optionality + T+1 settlement finality
- Wholesale move to T+1 Settlement
- No change - remain on T+2 settlement finality

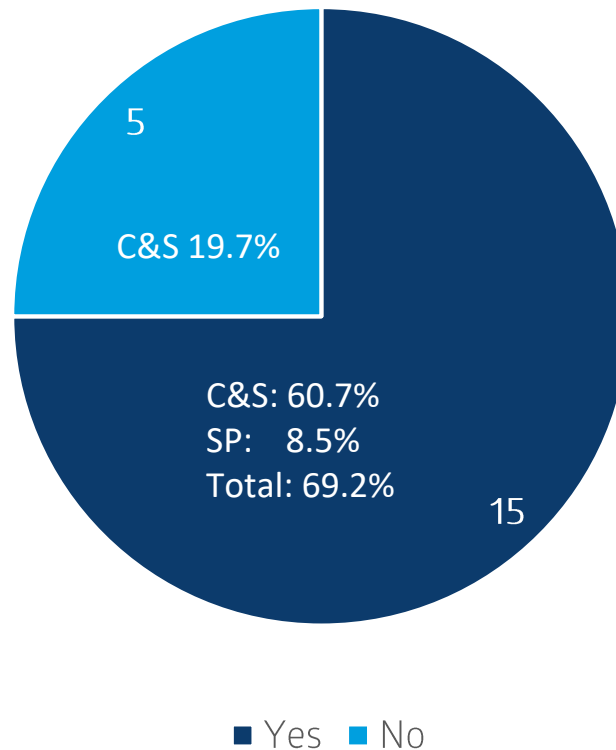
The respondents that selected “No change” also rated effort as very large

*Noting that settlement optionality would require further analysis and consultation on the possible settings to support its introduction, such as allowing for bilateral/line by line settlement and funding arrangements (cash & equities) should one party want to settle earlier than the other and an understanding of system capabilities.

03 T+1 settlement

The Australian cash equities market is effectively already operating at T+1.5 days settlement, due to the commencement of the settlement batch each day at 11.30am.

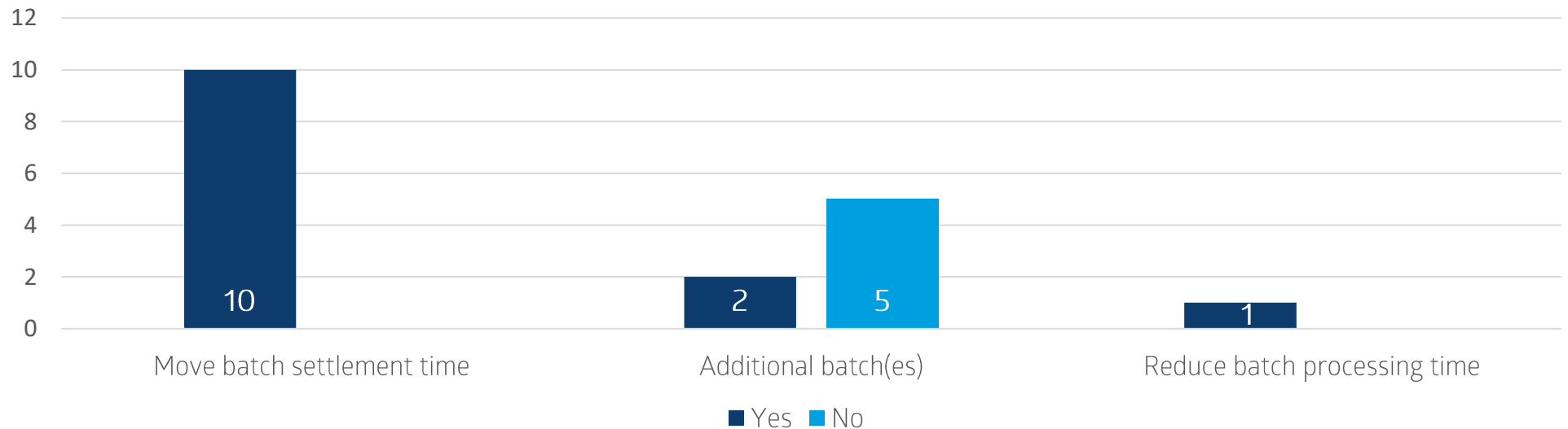
Do you think further operational efficiencies or changes in the operating model or timeframes are possible or required to support a transition to T+1 settlement (which would effectively be T+0.5 days based on the current batch settlement timing)?



03 T+1 settlement

Do you think operating hours would need to change to support the change?

For example, for the transition to T+2 settlement, the CHESSE settlement batch commencement time was changed from 10.30am to 11.30am.



Concerns:

- Allow sufficient time for global clients to make cut-off
- allow sufficient time after batch to calculate liquidity and effect transfers and payments
- Assess any knock on affects of later batch settlement time on other processes, payment cut off times
- A number of responses not in favour of additional batch:
 - reduces efficiency of first batch if some activity directed to additional batch
 - duplicates payment activities/costs; impact to bank liquidity facilities; less appetite from banks to provide intraday liquidity services to participants due to increased uncertainty
 - what happens to fails in first batch

03 T+1 settlement

Are there any other efficiencies that could support the change (for example introduce an additional settlement batch)?

Additional suggestions for efficiencies:

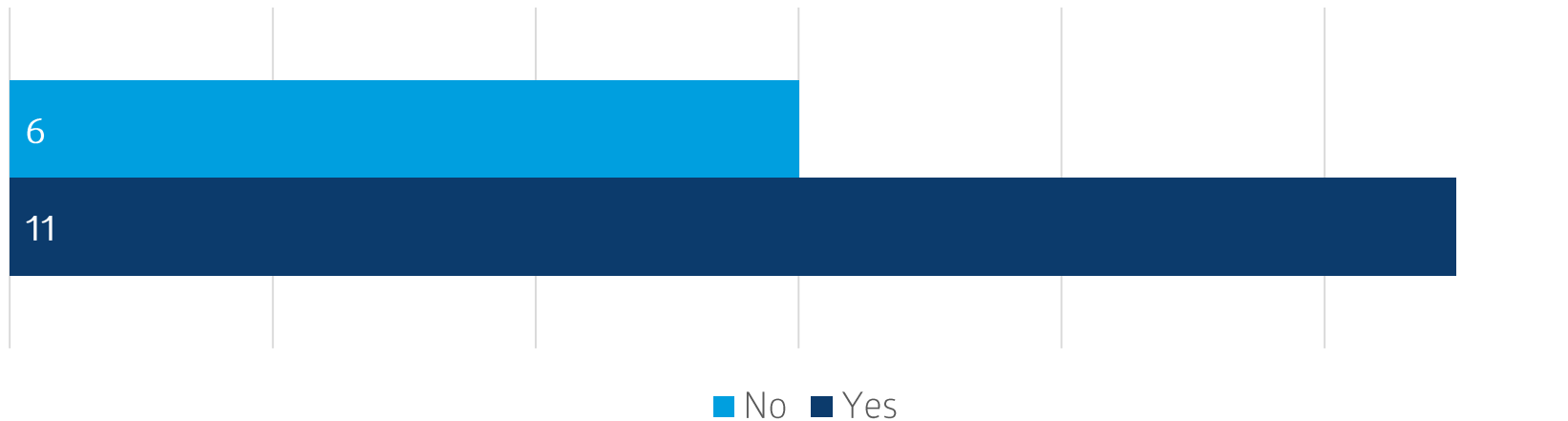
- Suggest exploration of electronic trade confirmation/trade matching facility (similar to DTCC rollout in US and HK Stock Connect) to reduce time lags associated with standard flow of trade bookings within each broker and custodian
- Suggest exploration of alternatives to support the transfer of dividend/corporate action entitlements between stock borrowers and lenders – eliminate the need to transfer the actual shares using BOMs.
- Suggest implementation of ETC unilateral settlement instructions to remove settlement matching. Implementing pre-matching authorisation of settlement instructions would help to identify true missing instructions, instead of lack of securities.
- ASX to provide data faster to support participant activities; e.g. netting activities
- Any lessons to be learnt from US migration to T+1

Do you think there would be considerations needed for preparation of batch settlement as it relates to funding by your payment bank?

- Most responded that payment bank arrangements would need to be considered, especially for any batch timing changes
- Batch timing changes may delay liquidity calculations, with increased funding costs.
- Also consider timing of margin requirements
- Need visibility of forecast funding requirements

03 T+1 settlement

Do you think a regulatory mandate for T+1 is a prerequisite for making this change?



Other comments:

- Regulatory mandate to support T+1, condition of the market to promote STP. Regulatory rule to ensure seller instructs settlement onto CHES, regardless of security position; mandate when allocations are done (e.g. T+0)
- Regulatory mandate means “all-in”, avoids delays
- The lack of a regulatory mandate means participants less inclined to support the change (vs. other priorities)
- Regulatory mandate also covers situation if more than one provider of clearing and settlement services – all should be on T+1
- Wasn't needed for transition to T+2

03 T+1 settlement

Do you think there are any other considerations needed for corporate action events in the context of a transition to T+1 settlement? For example, would a move to T+1 settlement and associated changes to corporate action timetables negate the need for the Cum Entitlement Balance function in CHES?

Feedback regarding Cum Entitlement Balance:

- 6 support consideration of removal of CEB in T+1 settlement; some not supportive
- Consider mechanism to transfer CEB separately to underlying security

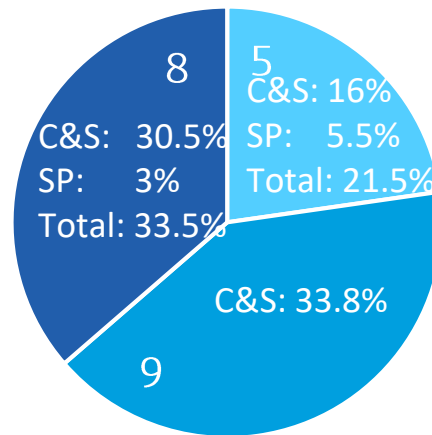
Other feedback:

- Review CA timetables, with consistent application across all securities.
- Impact of shortened timetable on accelerated offers – time available for investors (including offshore) to respond
- Consideration for market claims (expect fails over ex/record period may increase, increasing claims)
- Review of rules around protection of entitlements
- Better technology for cross-border transfers to avoid manual processes
- Review ASXSOR10.18.2 – lack of clarity regarding transferring franking credits to parties not contemplated in this rule
- Provide rules for protection in SPPs – e.g. if single seller causes multiple buyers to be unregistered
- Consider option assignments in cum dividend market
- Consider if special markets are removed in T+1 (currently offered on day before record date in ex dividend period)

Australian holders of foreign stock's ability to participate in events

03 T+1 settlement

ASX notes that given the current pause in CHESSE Replacement delivery activities, ASX Clear and ASX Settlement are supporting the availability of CHESSE until such time that it is safely replaced. What do you consider to be the most important initiative?

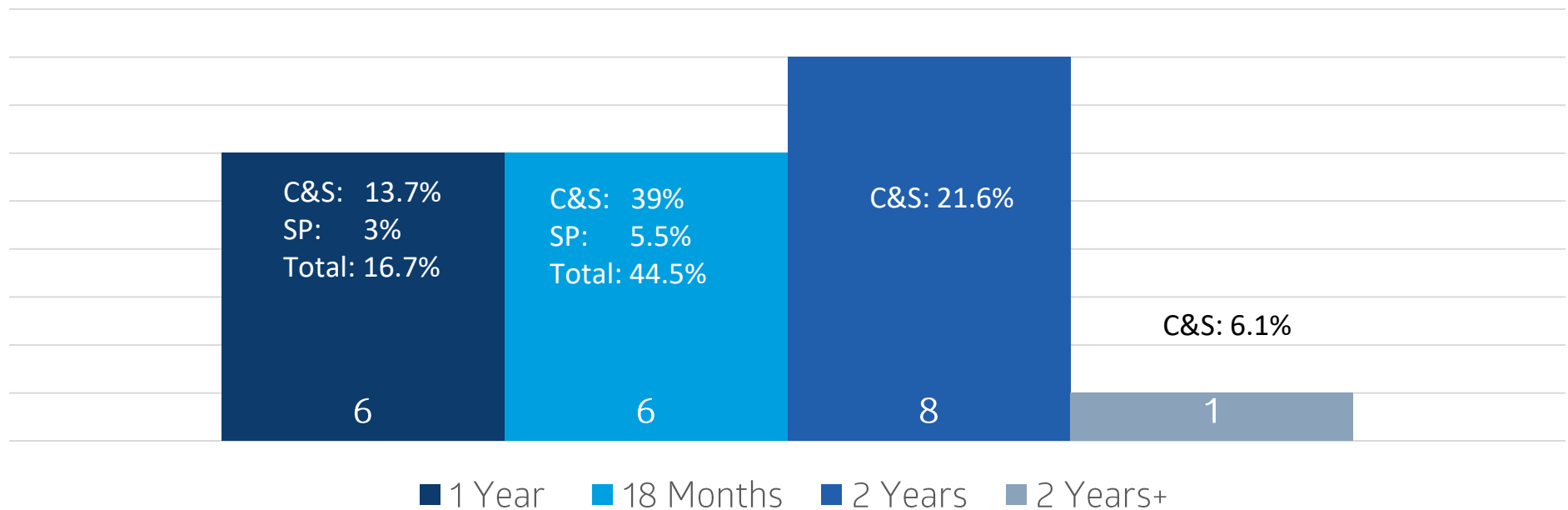


- Transition to T+1 should be a higher priority than CHESSE Replacement
- CHESSE Replacement should be a higher priority than a transition to T+1
- They are equally important and should be given the same priority

- Some respondents noted that CHESSE replacement should facilitate and reduce the impact of a move to T+1 and ensure a smooth transition.
- While some respondents said the initiatives are equally important, a number of respondents said that they would have two different teams etc. so to do the change concurrently would not be possible from a resourcing perspective.

03 T+1 settlement

How long do you think your organisation would need to prepare for T+1 settlement if the transition was agreed and confirmed? (As a guide, when ASX confirmed the project kick off to transition to T+2 settlement, the duration for changes activities and readiness for the Australian market was 18 months)



- One association noted (not counted above):
 - As expected, there was a large divergence of views from respondees on this question.
 - The responses ranged from 1 year to 2 years plus. We consider that the divergence of views on the time it would take to prepare for T+1 settlement is highly dependent on the size and nature of the organisation's operations and where they sit in the CHES ecosystem.

03 T+1 settlement

Do you expect readiness changes might be largely configuration and process change, and/or wholesale system changes?

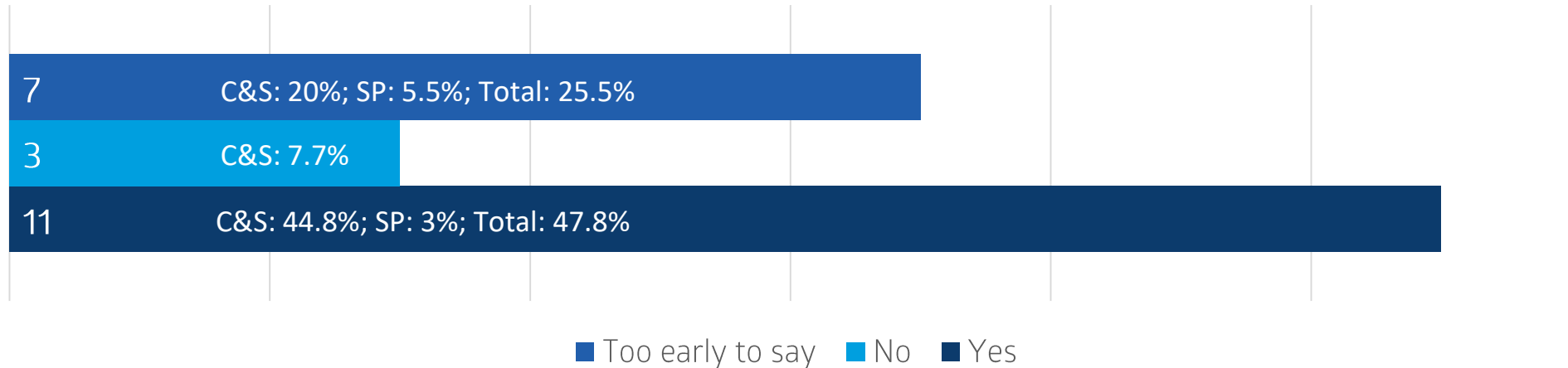
Most respondents said there would at least be configuration and process changes. Many also cited system changes and the size of the changes would be dependent on whether any other functions were introduced or changed as part of the transition (for example if CEB was removed, ETC introduced etc.)

Other considerations:

- Software vendor and system considerations (including upstream and downstream)
- Testing considerations
- Legal and compliance reviews
- Education and client communications

03 T+1 settlement

The transition to T+2 settlement in 2016 was coordinated between ASX (equity & debt) and NZX. Do you think the Australian and New Zealand cash equities and debt markets should transition at the same time to T+1 settlement?



Other comments:

- One association noted (not counted): “There was a mixed response to this question. One respondee considered that New Zealand is outside the scope of ASX and did not see the need to wait and co-ordinate. Another respondee pointed out that it makes sense to transition at the same time as there is a lot of ‘shunting’ between the Australian and New Zealand markets.”
- Another respondent noted that T+1 will also increase the fail rate of AU-NZ, NZ-AU shunt trade if NZ market is still operating on T+2

Any change to CHESSE settlement batch timing may mean deliveries to NZ market occur outside business hours
NZX market change shouldn't be a dependency for Australia



03 T+1 settlement

Do you have any other comments?

Feedback not already covered in previous summaries:

- Adopt a wait and see approach and observe outcomes of transition in US and other markets; what will UK and Europe decide?
- If CHES Replacement is a priority ahead of T+1, then market need clear guidance on go live date for CHES Replacement
- The T+1 timeframe is very short to allow for insto trade booking splits/confirmations (post Trade day) and preparation for settlement
- For retail investors – will change the dynamic to confirm funds and securities prior to trading – will this limit retail trading?
- Re-consider who is charged fail fees – e.g. fail fees imposed on investors to encourage meeting new timelines
- There are other priorities (besides T+1) that will deliver better outcomes for the market in the short term
- Customers (retail) are not asking for the change
- Need to see demonstrable financial and non-financial benefits for market participants and the broader market
- Process flow for exercise and assignment of ETOs – would be booked and settled on same day?
- Should we wait for availability of real time banking first?



04 – Conclusions for discussion, next steps

04 Conclusions for discussion, next steps

1. Preparation for T+1 settlement in other markets – local impact

- The impact of the move to T+1 in North America is the immediate concern of most respondents

Before May 2024:

- ASX to provide information to all customers to raise awareness
- ASX to provide clear guidance on what to look out for / exception arrangements
 - e.g. certain corporate actions/products/issuers
- ASX to provide information on where to ask questions/seek help

2. Transition to T+1 settlement in Australia?

- Overall, no clear consensus for immediate action
- Propose we adopt a wait and watch position for next year, approach the topic again in July 2024, including:
 - Observations from North America change, any key learnings
 - Observations of impact to local operations from North America change to T+1/vs. local T+2 settlement
 - Clearer view of CHESSE Replacement implementation timeline
 - ASX to review potential margin, capital savings

Feedback calls out the following desirable enablers for a transition to T+1:

- Electronic trade confirmation
- Stock lending arrangements
- Remove CEB
- Payment options like NPP

3. Share the survey results, conclusions and next steps with the CHESSE replacement Technical Committee

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Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Participant Sponsored HIN Creation & Maintenance Optional Pricing Proposal - update
Agenda Item No.	2b
Purpose	To provide members with an update of a new proposed optional fee model for sponsoring participants based on a subscription system, for the creation, maintenance and cancellation of sponsored Holder Identification Numbers (HINs) in CHESS
Prepared by	Ouafaa Daki, Senior Manager, Issuer Services, Securities and Payments Karen Webb, Senior Manager, Issuer Services, Securities and Payments
Action	For discussion
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

On 11 October members will be given a presentation (Attachment 1) that discusses the revised scope of the proposed optional fee model for the creation and maintenance of sponsored HINs in CHESS, which now includes the cancellation of Sponsored HINs.


The proposed optional model is a subscription-based system that depends on the number of active sponsored holders in CHESS. This model allows sponsoring participants to have unlimited creation, maintenance, and cancellation of sponsored HINs, provided that the HINs ASX communication preference is set to "Email". The aim of these changes is to facilitate the transition of sponsoring participants to electronic statements, as it is anticipated that their costs will be reduced under this new model.

This new subscription model will be optional, providing sponsoring participants with the choice to either remain under the existing fee structure or adopt the subscription model.

At the meeting ASX will provide an overview of the updated changes and next steps, as outlined in the presentation.

ATTACHMENT(S)

Attachment 1: New Optional Pricing Model for Sponsored HIN creation and maintenance - update



11 October 2023 ASX Business
Committee meeting –
Agenda Item 2b

New Optional Pricing Model for Sponsored HIN creation and maintenance - update

Ouafaa Daki, Senior Manager Issuer Services
Karen Webb, Senior Manager Issuer Services

Contents

01 – Updated Scope, Slide 3

02 – Overview, Slide 4

03 – Next Steps, Slide 5

Updated Scope

Impacted stakeholders and holder types

- > At the previous Business Committee, ASX introduced a proposed new optional fee model, based on a subscription system, for the creation or modification of registration details for **sponsored Holder Identification Numbers** (HINs) in CHESS via EIS 201 and EIS 203 messages, respectively.
- > **UPDATE:** This optional fee model will be extended to include **HIN cancellation** (also requested via EIS 203 message).
- > The proposed changes will specifically affect **sponsoring participants** and will not have any impact on other stakeholder groups, such as issuers.
- > However, ASX expects that the proposed model will encourage support by participants of investor take up of electronic statements, which in turn will provide a positive outcome for Issuers through a reduction in statement fees.

New Optional Pricing Model for Sponsored HIN creation and modification

Extended to include Cancellation

- > ASX has expanded its new optional subscription fee model for the creation and modification of sponsored Holder Identification Numbers (HINs) in CHESS via EIS 201 and EIS 203 messages.
- > This model now includes sponsored Holder Identification Numbers Cancellation.
- > Participants would have the option to opt into the subscription model where the participants would be charged a fixed fee monthly (estimated to \$0.02) for each sponsored HIN with one or more holding balances greater than zero.

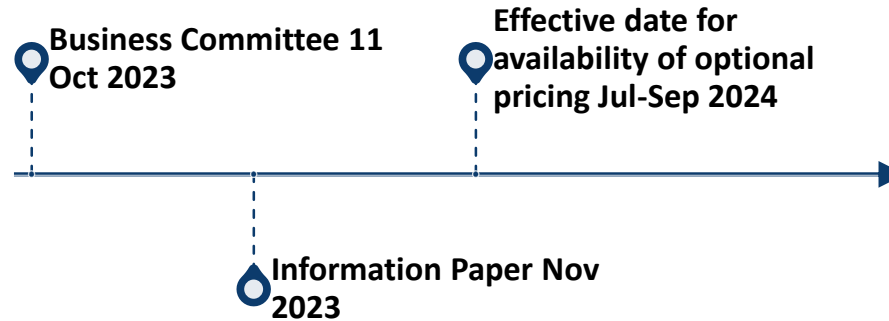
Sponsored HIN subscription	
Subscription Fee	\$0.02* monthly per active sponsored HIN. <i>*indicative only.</i>
	(Active HIN: HIN with a balance greater than zero at the last business day of the month)
HIN Creation, Modification & Cancellation Fee	Free - included in the subscription fee, if the ASX communication preference of the HIN is Email. Additional \$1.25 per request (EIS201 or EIS203 message) if ASX communication preference of the HIN is Mail.

Key Drivers:

The new optional pricing model lowers the cost of HIN creation, maintenance and cancellation for participants who opt-in their investors into electronic statements, which in turn will provide a positive outcome for Issuers through a reduction in statement fees.

Next Steps

- > ASX is currently preparing an information document that will detail the proposed optional pricing model for the creation, maintenance, and cancellation of Sponsored HINs. This document will also provide multiple examples of how the new optional fees will be calculated. The release of this document is planned by mid-November.
- > The proposed optional pricing model for the creation, maintenance, and cancellation of HIN is scheduled to be implemented in the third quarter of 2024. This timeline provides sufficient opportunity for sponsoring participants to transition their investors to electronic statements to benefit from this pricing. Set out below are current indicative dates for the introduction of the proposed optional pricing model.



- > ASX will continue to engage with interested participants on the new optional pricing model for HIN creation, maintenance and cancellation in advance of the changes. To facilitate this, we will organise information sessions upon request, offering a participant specific comparison of the existing fee structure and the new proposed optional fees.
- > ASX will continue to work in partnership with interested participants to make the transition to electronic statements and notifications as seamless as possible. This includes waiving certain fees relating to opting existing investors into the electronic communications service.



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Committee	Business Committee
Meeting date	11 October 2023
Agenda title	House client segregation in the cash market
Agenda Item No.	2c
Purpose	To update the Business Committee on the RBA's expectations of ASX with respect to an evaluation of the case for introducing a segregated account structure within current CHES
Prepared by	Nick Wiley, General Manager, Equity Post Trade & Payments
Action	For discussion
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

Paragraphs 7(b) and (c) of the Reserve Bank of Australia's (RBA's) letter of expectations (issued 15 December 2022) directed ASX in respect of current CHES to:

- (b) *By June 2023: Conduct an assessment 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; and*
- (c) *By December 2023: ASX should provide the Bank with a plan for implementing omnibus or individual client segregation, or a satisfactory explanation of how any alternative arrangements satisfy the requirements of the FSS, after consulting with industry stakeholders.*

ASX submitted the assessments required by para 7(b) to the RBA in June 2023 and these were summarised at the 19 July 2023 Business Committee meeting.

UPDATE

At the 19 July 2023 Business Committee meeting, ASX foreshadowed that it would be undertaking industry consultation on the case for introducing a segregated account structure within current CHES, pursuant to paragraph 7(c) of the RBA's letter of expectations. ASX intended to release a consultation paper in mid-September 2023, but was advised by the RBA shortly beforehand that it intends to undertake a special review of ASX's compliance with the Segregation and Portability Financial Stability Standard as part of its 2024 ASX Assessment, and would like to explore in more depth, the detail in the equivalence and feasibility assessments which ASX submitted in June 2023. Accordingly, the consultation which ASX had planned will not occur in 2023, but may be required by RBA at a later date.

Committee	Business Committee
Meeting date	11 October 2023
Agenda title	CHES Replacement – Project update
Agenda Item No.	3a
Purpose	To provide Business Committee members with a project update on CHES Replacement
Prepared by	Tim Whiteley, Project Director, CHES Replacement Katie McDermott, General Manager, Business Design, CHES Replacement
Action	For discussion
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

CHES is the core system that performs the processes of clearing, settlement, asset registration, and other post trade services which are critical to the orderly functioning of the market. Currently, ASX is in the process of evaluating technology solution options to replace the current CHES system for the benefit of all market participants and overall stability of Australia’s financial markets.

SUMMARY

Key project updates include:

- The CHES Replacement project team continues to work towards the end of this calendar year for the announcement of the high-level solution design (refer **Attachment 1**).
- The new industry Advisory Group has been established, with an initial focus on CHES replacement for the remaining meetings this year in the lead up decision-making by the Boards of ASX Clear and ASX Settlement on the solution design and partners later in the year.
- The CHES Replacement project team continues to work through commercial evaluation processes with potential project partners for technology solutions and solution integration.
- Since the last Business Committee, ASX has hosted a further four CHES Replacement Technical Committee meetings. The next meeting is scheduled for 28 November 2023. ASX also intends to hold an ad hoc virtual Technical Committee following any solution decision announcement.

PROJECT STATUS

The CHES Replacement project team continues to work towards the end of this calendar year for the announcement of the solution design. This remains subject to various factors, including the input from the new Advisory Group, other industry input and regulatory requirements.

The project team continues to refine scope with Technical Committee Members. Where relevant and appropriate, industry forums may be consulted. In Q1 2024, following the anticipated solution decision announcement, there will be further market consultation on the detailed scope, solution design and implementation plan. The CHES Replacement project team are also in the final stages of the project test strategy, noting that ASX will engage with the market on an industry test strategy post solution announcement.

REQUEST FOR PROPOSAL (RFP)

The CHES Replacement project team continues to explore potential vendor solutions as part of ASX’s strategy to consider all options during the solution redesign process. As noted at the 19 July 2023 Business Committee meeting, prospective

vendors were requested to provide proposals on their solutions, capabilities, services and partnering models. The CHES Replacement team continues to evaluate these responses to advance key assessment artefacts and ensure a comprehensive assessment of the identified solution archetypes for CHES replacement.

SOLUTION INTEGRATORS (SI)

Earlier this year, an SI evaluation approach was defined and endorsed by the C&S Boards. After a market scan, the evaluation of potential SI respondents was completed and the CHES Replacement SI RFP was released in June 2023. Responses from all selected vendors were received by the end of July 2023. These responses have been released to the evaluation team where assessment remains ongoing with the next step being the down selection of an SI partner to support the delivery of the project. Any decision on an SI vendor is expected to be announced in conjunction with any solution announcement.

KEY PROJECT RISKS

The project team continues to monitor the risk regarding the potential impact to timeframes due to commercial vendors' processes, noting risk likelihood has decreased since it was originally identified. This can be attributed to meeting project milestones which have reduced the number of outstanding commercial risks.

ADDITIONAL SCOPE REFINEMENT

Please refer to agenda item **3B CHES Replacement – Technical Committee scope recommendations** for this update.

TECHNICAL COMMITTEE

There has been recent interest in Technical Committee membership from external organisations. Clause 3.3 of the Technical Committee Charter provides that the ASX, in consultation with the Business Committee, will appoint members of the Technical Committee. Clause 3.2(c) also provides that members of the Technical Committee will include a representative per Business Committee member (except where the member represents an industry associations, in which case, the industry association can be an observer at Technical Committee meetings). Noting the current Business Committee membership review, consequential changes (if any) to the Technical Committee would need to be considered separately, and ASX proposes that this consideration should occur once we know how many additional members of the Business Committee will come on board for the first two-year term commencing December 2023.

The Technical Committee remains an important market engagement channel for this early phase of the project. Meetings continue on a monthly basis to a published timetable.

At the **26 July 2023** meeting, the Technical Committee was updated on progress against the previously presented milestone plan. A playback of the second and third scope refinement workshops on settlement enhancements and Corporate Action efficiencies was presented for all Members to review and discuss. Members were also provided the opportunity to offer feedback on the scope recommendation approach to the Business Committee and Boards of ASX Clear and ASX Settlement for inclusion in the detail design phase of the CHES Replacement project. Following this meeting, ASX issued the Scope Recommendation Survey on 3 August 2023 to facilitate this process.

At the **21 August 2023** meeting, the Technical Committee was updated on progress against the previously presented milestone plan and a summary of the Member pulse survey conducted in July 2023. A playback of the Scope Recommendation Survey results was provided for discussion and to highlight the diversity in scope preferences across Members. Members were also briefed on the steps required to finalise the scope recommendation proposal to the Business Committee and Boards of ASX Clear and ASX Settlement. Lastly, the CHES Replacement project team baselined the interface options in anticipation of the Interface Option survey which was issued to Members on 25 August 2023.

At the **13 September 2023** meeting, the Technical Committee was updated on progress against the previously presented milestone plan. Detailed discussion of the Scope Recommendation Survey results was provided along with discussion of the initial scope recommendation proposal which had been circulated earlier as part of the pre-read materials. This meeting was used to validate the initial proposal and ensure broad consensus. Lastly, Members received a play back of the Interface Options survey results, with AMQP and SWIFT ranking as the two preferred message transports. Message Based Reporting and Rest API were the two preferred reporting interfaces. The majority of respondents indicated that

their organisation had use cases for data streaming, including; Obligations, Accounts/Holdings, Trade/Transaction Status and Reference Data.

The October 2023 meeting of the Technical Committee was brought forward to the 28 September 2023 to provide another session to review and endorse the scope recommendation proposal prior to the 11 October Business Committee meeting.

At the **28 September** meeting, the Technical Committee was updated on progress against the previously presented milestone plan. Members were provided with another play back of the scope recommendation proposal (agenda item 3b) following feedback captured from the previous meeting. There was opportunity for final input before the proposal was confirmed as approved by the Technical Committee (subject to minor feedback captured during the session).

Previous Technical Committee agendas, presentation materials and minutes can be found [here](#).


ATTACHMENT(S)

Attachment 1: Redesign Milestone Plan

Attachment 1: Redesign Milestone Plan

Redesign plan update

Plan for solution design

	CY Q1	CY Q2	CY Q3	CY Q4
Product Definition & Business Case	<ul style="list-style-type: none"> ✓ Business Vision & Strategy ✓ Program Objectives 	<ul style="list-style-type: none"> ✓ Scope and business requirements refined 	<ul style="list-style-type: none"> <input type="checkbox"/> Scope and business requirements baselined <input type="checkbox"/> Business case submitted 	
Solution Assessment	<ul style="list-style-type: none"> ✓ Current state evaluation ✓ Solution decision framework developed 	<ul style="list-style-type: none"> ✓ Solution decision framework approved ✓ Solution options refinement ✓ Solution options evaluated 	<ul style="list-style-type: none"> <input type="checkbox"/> Solution design finalised <input type="checkbox"/> Project estimation completed 	<ul style="list-style-type: none"> ★ Announcement of solution design
Sourcing & Commercial	<ul style="list-style-type: none"> ✓ Market Scan ✓ Vendor solution RFI 	<ul style="list-style-type: none"> ✓ Vendor RFI evaluation ✓ Vendor RFP issued and responses received ✓ Solution integrator RFP 	<ul style="list-style-type: none"> <input type="checkbox"/> Vendor commercial and contracting processes <input type="checkbox"/> SI selection and contracting 	
Testing & Implementation	<ul style="list-style-type: none"> ✓ Implementation options review 	<ul style="list-style-type: none"> ✓ Implementation impact assessment ✓ High level test strategy 	<ul style="list-style-type: none"> <input type="checkbox"/> Implementation strategy <input type="checkbox"/> Test strategy & approach completed 	

Key Risk:

- Commercial vendors' processes may impact the timeline for a Q4 announcement on a solution design

Legend:

- Inflight
- ✓ Completed

Committee	Business Committee
Meeting date	11 October 2023
Agenda title	CHES Replacement – Technical Committee scope recommendations
Agenda Item No.	3b
Purpose	To provide Business Committee members sufficient information to make a recommendation to the Boards of ASX Clear and ASX Settlement on CHES Replacement scope objectives
Prepared by	Tim Whiteley, Project Director, CHES Replacement Katie McDermott, General Manager, Business Design, CHES Replacement
Action	For recommendation to the Boards of ASX Clear and ASX Settlement
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	The Business Committee RECOMMENDS the inclusion of 15 CHES Replacement Scope Objectives into the detailed design consultation of the CHES Replacement project.

BACKGROUND

The Technical Committee is seeking Business Committee endorsement of 15 Scope Objectives to be recommended to the boards of ASX Clear and ASX Settlement for inclusion in the detailed design consultation regarding CHES Replacement project scope.

This paper provides the Technical Committee approved proposal for Business Committee recommendation to the boards of ASX Clear and ASX Settlement. The Board may take actions in accordance with the recommendations or explain why they have not adopted the recommendations. The implementation of any scope objectives will also be subject to factors including the design consultation process, technology solution, any regulatory approvals required and market engagement on risk, readiness and implementation planning.

For completeness, this paper also provides an overview of the scope refinement process to date.

CHES REPLACEMENT SCOPE REFINEMENT PROCESS

The initial CHES replacement project scope was designed with input and feedback from the industry. Following the pause in November 2022, the CHES replacement project has utilised the previously developed scope and 106 existing ISO 20022 messages as the baseline for commencing solution analysis for the continuation of the project.

In March 2023, ASX provided Technical Committee Members the opportunity to refine the existing CHES Replacement scope. Responses were played back to Technical Committee Members in the April meeting, with three key functional areas of improvement emerging. A plan for deeper-dive workshops on these specific scope areas was proposed, inviting members to reach out within their organisations to ensure attendees were subject matter experts. Consequently, ASX facilitated three scope refinement workshops independently moderated by industry bodies AFMA and ACSA on the following (attachment 1):

1. *Sub-Register and Issuer Sponsored enhancements and process improvements (25 May)*
2. *Settlement improvements and enhancements (19 June)*
3. *Corporate Action processing efficiencies (12 July).*

Via survey (*attachments 4 - 9*), the information collected in advance of each workshop enabled the population and discussion of problem statements relating to these identified areas. The output of the workshops were detailed business canvases (attached), articulating industry problem statements and ultimately identifying Scope Objectives for CHES

Replacement's consideration. Business canvases and the associated Scope Objectives were shared back to workshop attendees, before sharing to all Technical Committee Members for further discussion.

Importantly, feedback that was not related to scope, but referred to the detailed design and implementation was captured and will be reviewed when the project reaches the appropriate stage to explore detailed design and implementation. Similarly, feedback relating to scope independent of the CHES replacement solution, such as T+1 or other requests that do not require the replacement of technology, were documented and are being dealt with by relevant ASX teams outside of the CHES Replacement project.

To ascertain an understanding of the support for each CHES Replacement Scope Objective, ASX issued a Scope Recommendation Survey to all Technical Committee Members. The survey included all Scope Objectives identified in the scope refinement workshops, and asked Members to provide their view on the organisational impact, priority and overall recommendation for each. The survey also provided a free text column for any additional commentary and completeness.

Prior to the 13 September Technical Committee, the results of the Scope Recommendation Survey were anonymised and collated before being distributed to all TC Members (attached). The results document also included an initial proposal, categorising each Scope Objective with accompanying justification for Member review and commentary. Importantly, the heat map view contained within the Scope Recommendation Survey results illustrated the diverse perspectives of market participants, emphasising the challenge associated with balancing individual priorities. The 13 September Technical Committee was used to validate this initial proposal and ensure broad consensus. Additionally, the October Technical Committee was also brought forward to 28 September to provide Technical Committee Members an additional session to review and approve the recommendation proposal prior to the 11 October Business Committee.

Attachments 2 and 3 provides a high-level visual overview of the aforementioned process to date.

SCOPE RECOMMENDATION DEFINITIONS

The identified Scope Objectives were categorised under one of the following:

- 1. Proceed to CHES Replacement design evaluation and consultation**
 - This evaluation will be based on the chosen solution option in parallel with support from relevant and appropriate industry forums or requisite working groups.
- 2. Proceed to CHES Replacement design evaluation and consultation (and evaluate the opportunity to make improvements in current CHES)**
 - This evaluation will be based on the chosen solution option in parallel with support from relevant and appropriate industry forums or requisite working groups.
 - The feasibility of these objectives will also be explored in current CHES.
 - These are not expected to include any CHES code changes, but rather minor configuration or process changes.
- 3. Further consideration**
 - These objectives will be brought back to the Technical Committee for further discussion. Where relevant and appropriate, industry forums may be consulted. These objectives, and any future objectives, will have the opportunity to be recommended to the Business Committee and C&S Boards for inclusion in the CHES Replacement design phase in the future.
- 4. Not supported**
 - These objectives have not received sufficient support and will not be brought forward at this time.

TECHNICAL COMMITTEE PROPOSAL [For recommendation to the C&S Boards]

The Business Committee recommends that the functionality specified in [Table 1] (below) proceeds to design consultation for CHESS Replacement and, where specified, be evaluated for opportunities in CHESS.

Table 1: Technical Committee Scope Proposal

Topic	Functionality	Ref	Scope Objective	Rationale	Proposal
Sub-register and issuer sponsored	Registration Details and Investor Information	1.1	Standardise, improve and better synchronise the data sharing between participants and share registries	ASX proposes continued assessment of the way information is shared during the design process, supported by benefits developed via industry associations.	<i>Proceed to CHESS Replacement design evaluation and consultation</i>
	SRN Enquiry & Validation	1.3	Implement a faster and more efficient SRN enquiry process	ASX proposes a review of the end-to-end process in relation to SRN enquiries and issuer sponsored sales to identify any improvements that can be made.	<i>Proceed to CHESS Replacement design evaluation and consultation</i>
	Issuer Sponsored Holding Locks	1.4	Reduce settlement risk in relation to issuer sponsored sales		<i>Proceed to CHESS Replacement design evaluation and consultation</i>
	ETF Creations & Redemptions	1.5	Reduce operational risk in relation to the current ETF creation/redemption workflow	ASX proposes evaluating with affected stakeholders what changes could improve the process for ETF creation and redemption, including whether any improvements are appropriate for the current system.	<i>Proceed to CHESS Replacement design evaluation and consultation (and evaluate the opportunity to make improvements in current CHESS)</i>
	Continuous Holding Balance	1.6	Provide more efficient, reliable and faster access to holding information	ASX proposes to review access to holding balances in the context of the selected solution and connectivity channels.	<i>Proceed to CHESS Replacement design evaluation and consultation</i>
Settlement	Bilateral Matching Improvements	2.1	Reduce operational risk by ensuring participants are able to submit and match transactions in the system as soon as practical whilst minimising the likelihood of incurring a failed settlement (e.g. being able to separately match and schedule a transaction)	ASX proposes to facilitate a re-review of the matching rules, criteria and processes in the context of the selected solution.	<i>Proceed to CHESS Replacement design evaluation and consultation</i>

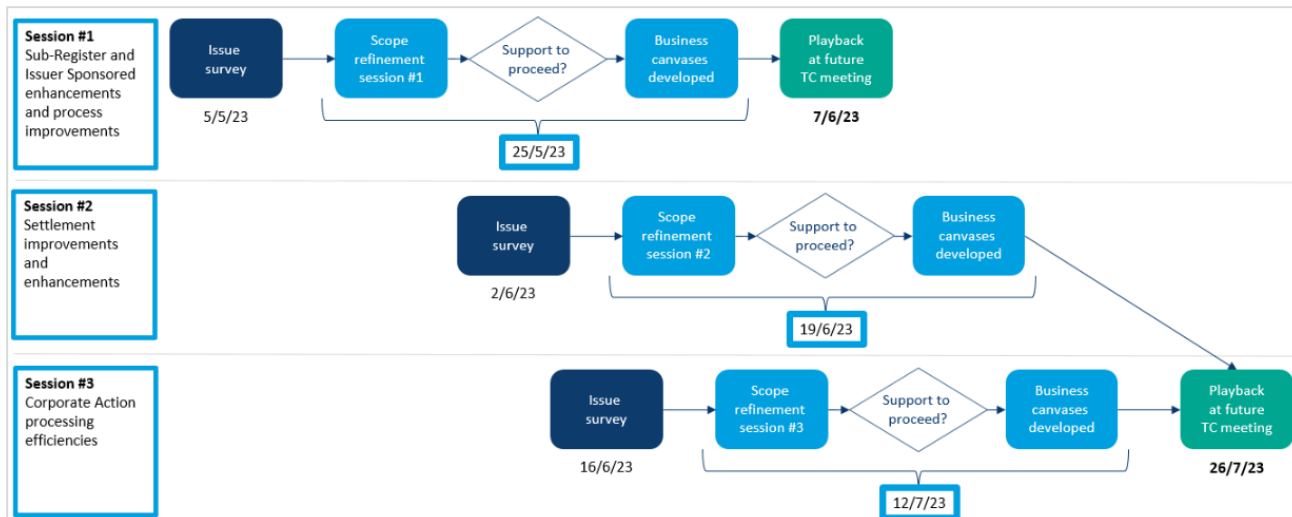
		2.2	Reduce operational risk by minimising mismatches and failed matches by increasing the data sharing and matching fields available and/or making use of information available in upstream systems		<i>Proceed to CHES Replacement design evaluation and consultation</i>
	N/A	2.6	Scheduled Settlement CHES to CHES Transfer Request (MT107) - support usage within a participant group structure	ASX proposes to review the whether this request can be considered in the context of the current system and continue to consider for CHES Replacement.	<i>Proceed to CHES Replacement design evaluation and consultation (and evaluate the opportunity to make improvements in current CHES)</i>
Corporate Actions	Electronic Dividend Claims	3.1	Review and enhance the current processes for automated claims (diary adjustments) to ensure it continues to meet the market needs.	ASX proposes to re-review of the diary adjustment processes in the context of the selected solution, including identification of any improvements that can be made.	<i>Proceed to CHES Replacement design evaluation and consultation</i>
	Corporate Action Election and Acceptance Processing	3.2	Provide standardised straight through processing capability for corporate action elections and cost effective associated payments.	Corporate Action Elections were previously in scope for CHES Replacement Day 2, and DRP Elections are still a part of the scope baseline. ASX proposes to facilitate a re-evaluation of the process design, supported by benefits developed via industry associations. Consideration should be given to critical path and release scheduling, and benefits should be supported by industry associations.	<i>Proceed to CHES Replacement design evaluation and consultation</i>
		3.3	Reduce operational risk in relation to DRP standing instructions.		<i>Proceed to CHES Replacement design evaluation and consultation</i>
	Electronic Notification of Payment Advice	3.5	Provide standardised electronic transmission of corporate action distribution information to create opportunities for automation and process improvement.	Corporate Action Distribution information is currently used in CHES for mFund securities. ASX proposes to facilitate an evaluation of the feature in relation to other instruments. Consideration should be given to critical path and release scheduling, and benefits should be supported by industry associations.	<i>Proceed to CHES Replacement design evaluation and consultation</i>
	Other Corporate Action Efficiencies	3.6	Evaluate whether ASX can help with the transmission of bank account information in relation to bid offers	ASX proposes to review the transmission of bank account information in the context of the current system and continue to evaluate for CHES Replacement.	<i>Proceed to CHES Replacement design evaluation and consultation (and</i>

					<i>evaluate the opportunity to make improvements in current CHESs)</i>
	Other Corporate Action Efficiencies	3.7	Ensure holding adjustment reason codes are up to date and being used correctly	A review of the holding adjustment reason codes was previously undertaken for CHESs Replacement. ASX proposes for this to be re-reviewed and additionally evaluated in the context of current CHESs.	<i>Proceed to CHESs Replacement design evaluation and consultation (and evaluate the opportunity to make improvements in current CHESs)</i>
	Other Corporate Action Efficiencies	3.8	Make sub-register state more readily available to participants to help improve processes in relation to de-listings	Additional security state notifications was previously included in CHESs Replacement. ASX proposes this remains in scope and is also reviewed in the context of current CHESs.	<i>Proceed to CHESs Replacement design evaluation and consultation (and evaluate the opportunity to make improvements in current CHESs)</i>

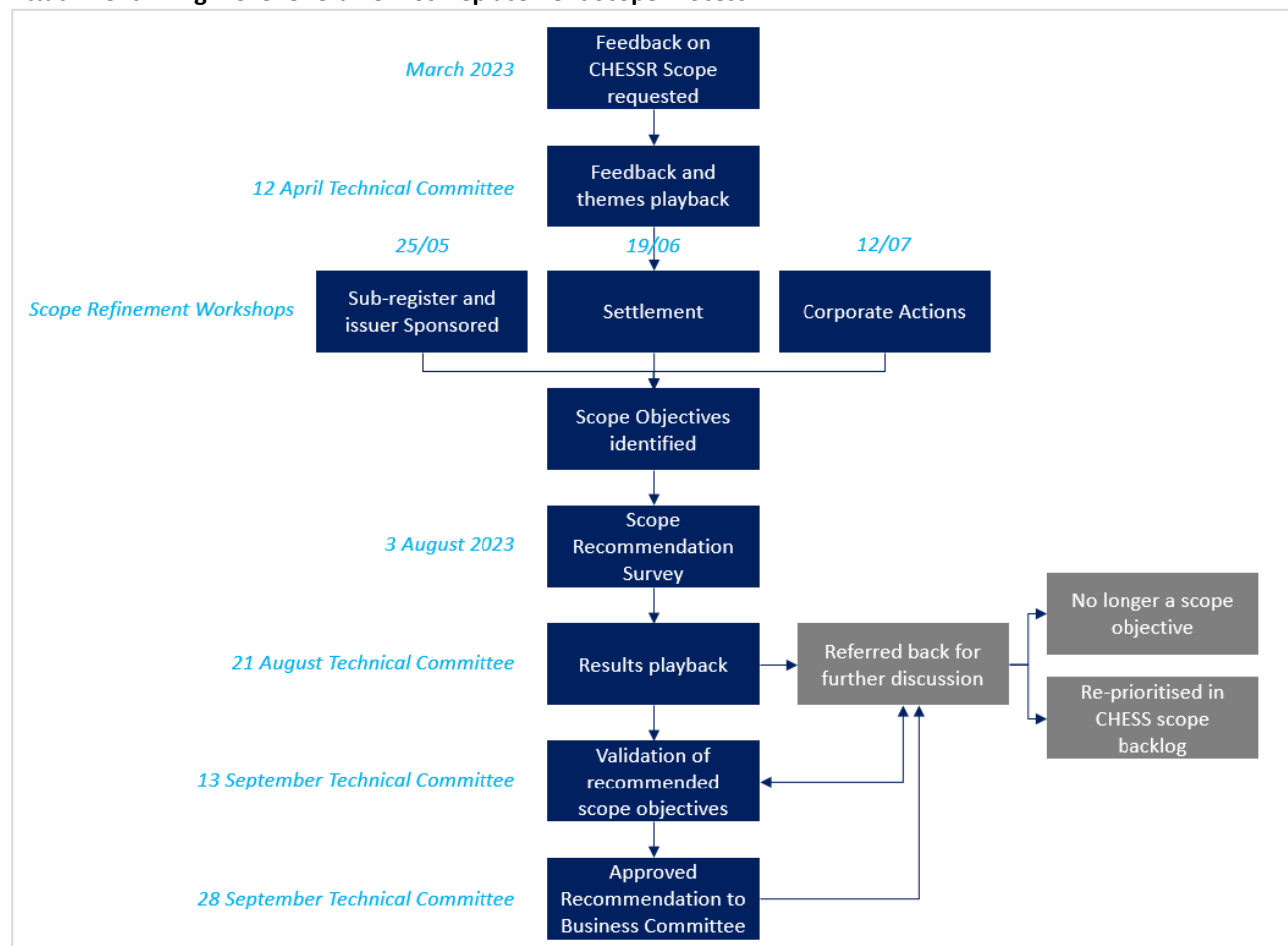
The following identified Scope Objectives will remain with the Technical Committee for further consideration until a time where they can be brought back to the Business Committee for recommendation to ASX Clear and ASX Settlement Boards.

Topic	Functionality	Ref	Scope Objective	Rationale	Proposal
Sub-register and issuer sponsored	Registration Details and Investor Information	1.2	Foreign restricted securities - review and simplify the current processes for holdings and transfers	ASX proposes to review the current process and usage in relation to FOR securities, and the appropriateness of the functionality going forwards.	<i>Further consideration needed</i>
Settlement	Standing Instructions	2.3	Reduce operational overhead in relation to payment provider authorisations by allowing for automated approvals in the system within cash limits.	ASX proposes to gain feedback from payment providers via the ESPPSC (Equity Settlement Payment Provider Sub-Committee) before a determination is made.	<i>Further consideration needed</i>
	Preliminary Payment Notifications	2.4	Provide more certainty by enabling more frequent and/or configurable access to preliminary payment data.		<i>Further consideration needed</i>
	N/A	2.5	Bilateral Matching – use of Transaction Basis (on and off-market)	ASX will undertake a review the rationale for the current on/off-market transaction basis indicator in the context of the current system and continue to consider for CHES Replacement.	<i>Further consideration needed</i>
	N/A	2.7	Deferred settlement securities – review process to ensure/improve settlement efficiencies	ASX will undertake a review the deferred settlement process to ensure it remains fit for purpose and aligns to international standards.	<i>Further consideration needed</i>
Corporate Actions	Cum Entitlement Balance Transfer	3.4	Evaluate opportunities to facilitate the transfer of entitlements (pre and/or post Record Date) ensuring this does not impact issuer schedules.	ASX proposes to facilitate a re-review of the current Cum Entitlement Balance process and its use cases more generally in relation to the selected solution, and its appropriateness if the market was to move to T+1.	<i>Further consideration needed</i>
	Other Corporate Action Efficiencies	3.9	Standardised electronic proxy voting	Broader industry and potential legislative change is required to facilitate proxy voting. ASX can continue to review and evaluate whether there is a role for CHES to play in this process.	<i>Further consideration needed</i>

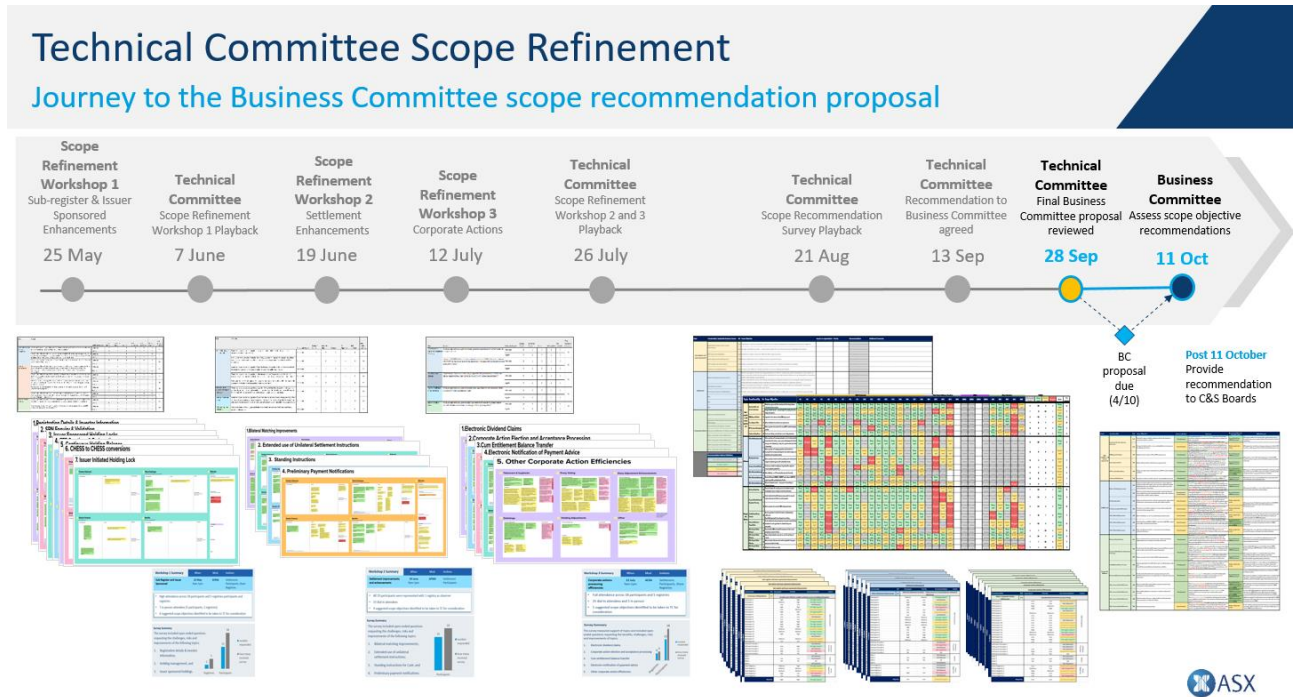
Attachment 1: CHES Replacement Scope Refinement Workshop Process Overview



Attachment 2: High level Overall CHES Replacement Scope Process



Attachment 3: Scope Refinement Process with artefacts



Attachment 4: Scope Refinement Workshop 1 summary

Workshop 1 Summary	When	Mod.	Invitees
Sub-Register and Issuer Sponsored	25 May 9am-1pm	AFMA	Settlement. Participants, Share Registries

- High attendance across 18 participants and 5 registries participants and registries
- 7 in-person attendees (5 participants, 2 registries)
- 6 suggested scope objectives identified to be taken to TC for consideration

Survey Summary

The survey included open ended questions requesting the challenges, risks and improvements of the following topics:

1. Registration details & investor information;
2. Holding management; and
3. Issuer sponsored holdings.

Topic	number responded	how many received survey
Registries	2	5
Participants	11	18

Attachment 5: Scope Refinement Workshop 2 summary

Workshop 2 Summary	When	Mod.	Invitees
Settlement improvements and enhancements	19 June 9am-1pm	AFMA	Settlement Participants

- All 19 participants were represented with 1 registry as observer
- 33 dial-in attendees
- 4 suggested scope objectives identified to be taken to TC for consideration

Survey Summary

The survey included open ended questions requesting the challenges, risks and improvements of the following topics:

1. Bilateral matching improvements;
2. Extended use of unilateral settlement instructions;
3. Standing instructions for Cash; and
4. Preliminary payment notifications.

Category	Number Responded	How Many Received Survey
Participants	15	19

Attachment 6: Scope Refinement Workshop 3 summary

Workshop 3 Summary	When	Mod.	Invitees
Corporate actions processing efficiencies	12 July 9am-1pm	ACSA	Settlement. Participants, Share Registries

- Full attendance across 18 participants and 5 registries
- 35 dial-in attendees and 5 in-person
- 5 suggested scope objectives identified to be taken to TC for consideration

Survey Summary

The survey measured support of topics and included open ended questions requesting the benefits, challenges, risks and improvements of topics:

1. Electronic dividend claims
2. Corporate action election and acceptance processing
3. Cum entitlement balance transfer
4. Electronic notification of payment advice
5. Other corporate action efficiencies

Category	Number Responded	How Many Received Survey
Registries	4	5
Participants	12	18

Attachment 7: Sub-register and issuer sponsored enhancements and process improvements survey

Topic	Question	Participant/Registry	Strongly Support	Somewhat Support	Neutral	Not Supportive	Not applicable	Numbr of responses	Total number of responses
Registration Details & Investor Information	In this context, do you support the ability to transmit additional (beyond current scope) investor data between Participants and Share Registries for listed securities?	Participant	2	3	4	1	1	11	13
		Registry	2	0	0	0	0	2	
	Do you support the ability for the ASX to capture and record additional investor data against a HIN. The stored Investor data including any standing instructions will be used as a default to auto-notify Share Registries when there is a new holding and/or update to existing details?	Participant	7	2	2	0	0	11	13
		Registry	1	0	0	1	0	2	
	Do you support greater standardisation (i.e. alignment) of registration details across both Broker and Issuer Sponsored Sub-registers?	Participant	5	1	4	0	1	11	13
		Registry	1	0	1	0	0	2	
Holding Management	Do you support the ability for a Share Registry or Sponsoring Participants to apply a temporary, time-based holding lock, or partial holding lock, against a broker sponsored holding (to be used, for example, to enforce trading of employee issued securities that are subject to trading blackout restrictions)?	Participant	1	1	6	3	0	11	13
		Registry	1	0	0	1	0	2	
	Do you support the ability to perform a holding movement between HINs (under the same registered holder) across two different Sponsoring Participants, where the standing instructions of the receiving HIN are retained?	Participant	1	1	5	1	3	11	13
		Registry	0	2	0	0	0	2	
	Are you in favour of having greater access (in addition to current message-based reports) to more current CHES holdings data (e.g. via real-time data API) including record date holdings and/or cum entitlement balances?	Participant	6	1	3	1	0	11	13
		Registry	0	1	1	0	0	2	
	Do you support improvements to the holding adjustment and transfer process in relation to ETF creations and redemptions?	Participant	3	1	7	0	0	11	13
		Registry	1	1	0	0	0	2	
	Do you support the ability to "tag" or break-down parcels of holdings (such as for the purposes of tracking foreign ownership, or indicating holdings held by Key Management Personal (KMP) such as Company Directors, or otherwise)?	Participant	1	0	7	2	1	11	13
		Registry	1	0	0	1	0	2	
Issuer Sponsored Holdings	Do you support the ability for Settlement Participants to apply temporary locks on issuer sponsored securities to improve the process of stock delivery for issuer sponsored securities on settlement?	Participant	1	3	4	1	2	11	13
		Registry	0	1	1	0	0	2	
	Have you identified inefficiencies with, and/or do you support improvements to, the current SRN enquiry and SRN balance enquiry process(es)?	Participant	7	2	2	0	0	11	13
		Registry	1	1	0	0	0	2	

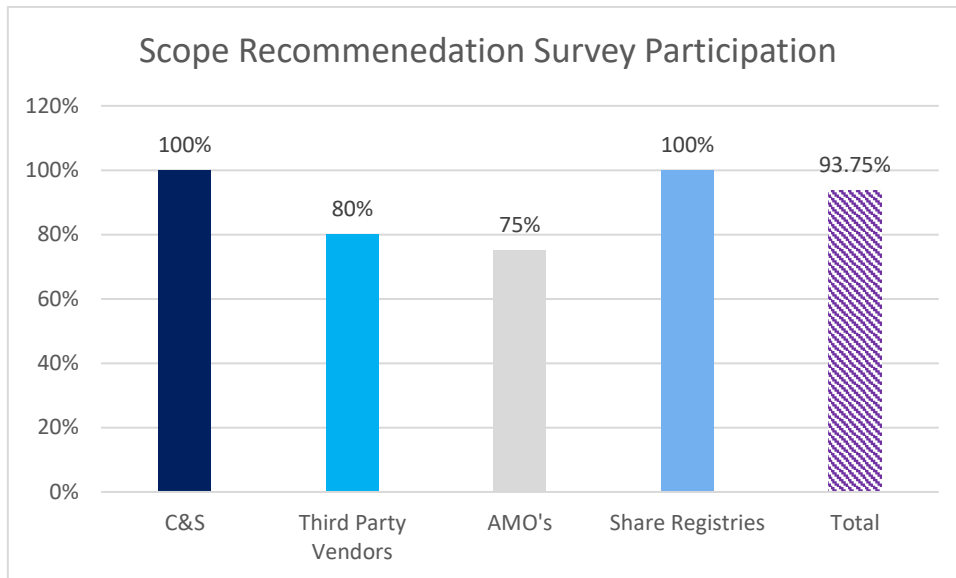
Attachment 8: Settlement enhancements survey

Topic	Question	Participant/Registry	Strongly Support	Somewhat Support	Neutral	Not Supportive	Not applicable	Total number of responses
Bilateral Matching Improvements	Would your organisation be supportive of using a Common Identifier, for matching purposes of 'Bilateral Settlement Instructions'?	Participant	3	2	4	3	0	12
	How supportive would your organisation be for CHES to directly integrate with an external upstream system/s to source bilateral transactions previously matched by participants prior to their CHES submission.	Participant	4	2	3	1	2	12
	Would your organisation be supportive of enabling bilateral transactions to be pre-matched earlier in the settlement period prior to committing the transaction for settlement in CHES?	Participant	5	1	3	2	1	12
	Would your organisation be supportive of introducing a 'request/response process' for bilateral transactions as an enhancement/alternative to the current matching process of bilateral instructions?	Participant	0	1	5	6	0	12
	What would be the level of support of your organisation in regard to providing additional details in the allegation notification that is transmitted to the counterparty?	Participant	2	4	5	1	0	12
Extended use of Unilateral Settlement Instructions	Would your organisation be supportive of extending the use of Unilateral Settlement Instructions to additionally enable the transfer of securities during a nominated batch settlement cycle FoP, between two Accounts (HINs), controlled by separate Participants, within a Participant Group.	Participant	2	2	5	0	3	12
Standing instructions for Cash	Would your organisation be supportive of your payment provider selection to have payments (within a configurable value limit) automatically approved in CHES on their behalf? This refers to payments in relation to a batch settlement cycle as well as bilateral delivery vs payment settlement outside of batch.	Participant	2	0	5	1	4	12
Preliminary payment notifications	What level of support would your organisation hold for the introduction of additional preliminary payment notifications?	Participant	0	3	7	2	0	12

Attachment 9: Corporate action efficiencies survey

Topic	Question	Participant/Registry	Strongly Support	Somewhat Support	Neutral	Not Supportive	Not applicable	Total number of responses
Corporate Action Election and Acceptance Processing	Would your organisation be supportive of expanding electronic acceptance and/or payment capabilities for corporate actions?	Participant	8	1	3	0	0	16
		Registry	0	3	0	1	0	
	In respect to DRP/BSP Plan Elections, is your organisation supportive of CHES retaining information such that DRP/BSP Plan Elections can be transmitted automatically in the case a holding is reduced to zero and subsequently increased?	Participant	8	1	2	1	0	16
		Registry	0	2	0	2	0	
Cum Entitlement Balances	If Cum Entitlement Balances are retained, do you support the ability to transfer the Cum Entitlement Balance irrespective of the underlying financial product ("Cum Entitlement Balance Transfer")?	Participant	8	1	2	1	0	16
		Registry	0	2	0	2	0	
Electronic Notification of Payment Advice	Would your organisation be supportive of expanding the usage of electronic payment advices to listed products and/or further corporate action types?	Participant	6	1	4	1	0	16
		Registry	0	2	1	1	0	
Electronic Dividend Claims	Would your organisation be supportive of adopting an electronic dividend claims process to resolve incorrectly allocated dividend payments (including any attaching franking credits)?	Participant	10	0	1	1	0	16
		Registry	0	0	0	2	2	

Attachment 10: Scope Recommendation Survey Participation



Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Business Committee Membership Structure Survey
Agenda Item No.	5a
Purpose	To inform the Business Committee of the results of the Business Committee Membership Structure Survey and next steps
Prepared by	Nick Wiley, General Manager, Equity Post Trade & Payments
Action	For discussion
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

ASX's annual review of the membership of the Business Committee earlier this year identified that a number of Clearing and Settlement participants that were not already members were interested in becoming members of the committee.

On 15 August 2023, ASX issued a survey to 73 stakeholders (comprising Business Committee members, together with Clearing Participants and Settlement Participants who are not currently represented on the committee) to obtain their views with respect to a potential change to the membership structure of the committee. The survey options were:

Option 1	Open up membership of the Business Committee to all eligible Clearing and Settlement participants.
Option 2	Introduce a rotational arrangement for membership of the Business Committee by eligible Clearing and Settlement participants.
Option 3	Neither Option 1 or 2 – no change.

Results of survey

The survey closed on 12 September 2023. Twenty responses were received with Option 1 supported by the majority of respondents. The survey results (by cohort) are set out in the table below.

Option	Clearing and Settlement participant	Industry Association	AMO	Total in favour	Existing Business Committee member?
1 Open up membership	11 6 retail brokers 3 institutional brokers 2 custodians	6	0	17	14 of 17 are Business Committee members
2 Rotational membership	1 (Custodian)	0	0	1	Yes
3 No change	1 (Custodian)	0	1	2	Both are Business Committee members

Comments made by respondents to the survey (refer **Attachment 1**) indicate a common concern that a greater number of committee members will lead to less effective Business Committee meetings. ASX acknowledges that the committee is already large and that any material increase in the size of the committee would increase the onus on the Chair to ensure that meetings are managed in a way that permits a balanced cross-section of viewpoints to be brought forward. At the same time, ASX has a responsibility to provide a meaningful response to Clearing and Settlement Participants who wish to join the committee, and notes the lack of material survey support for a rotational membership structure which would limit the size of the committee and give all participants an opportunity (over time) to join the committee.

ASX thanks all Business Committee members who responded to the survey. ASX acknowledges all survey comments provided and notes in particular the comments with respect to consideration of different methods for meaningful engagement through the committee.

Next steps

ASX will change the membership structure of the Business Committee in line with Option 1 (as outlined in the survey):

1. All Clearing Participants and General Settlement Participants will be eligible to join the Business Committee;
2. Reflecting current practice, participants that are part of the same corporate group would nominate a single representative to the committee;
3. Membership of the committee is optional, not mandatory;
4. ASX will run a nomination process to constitute the entire committee membership every 2 years. All eligible institutions wishing to nominate would be expected to:
 - a. make a commitment to membership for a term of 2 years; and
 - b. send a single qualified representative to each meeting of the committee during that term;
5. The expectations and qualifications that apply to representatives under the Business Committee's charter (e.g. authority to speak on behalf of the member institution, expertise to make a meaningful contribution, and willingness to share appropriate and useful information with the committee) continue to apply; and
6. Any Clearing Participant or General Settlement Participant that is admitted to participation in the CS facilities during a term will be offered the opportunity to join the committee at the time of admission.

The first two-year term under this new membership structure will commence as of December 2023 and continue to December 2025. The membership of the committee for this term will be constituted as follows:

1. All institutions (including Clearing Participants and General Settlement Participants) who are currently represented on the committee will be taken to have nominated for membership of the committee for this term; and
2. ASX will invite all Clearing Participants and General Settlement Participants who are not already members of the Business Committee to become members with the intent that those who accept the membership invitation will join the Business Committee on and from the 6 December 2023 committee meeting.

As noted in the survey, this change in the membership structure of the Business Committee should not automatically result in an increase in the size of the CHES Replacement Technical Committee. Consequential changes (if any) to the Technical Committee would need to be considered separately, and ASX proposes that this consideration should occur once we know how many additional members of the Business Committee will come on board for the first two-year term commencing December 2023.

ATTACHMENT(S)

Attachment 1: Comments from survey respondents

ATTACHMENT 1: COMMENTS FROM SURVEY RESPONDENTS

Cohort	Option chosen	Comment
Clearing and Settlement participant A	2	<i>At what level should the limit on the number of Clearing and Settlement Participant members be set?</i> I would say the current number of participants is already on the high side and partly losing its effectiveness. As such I would propose this is set at 20 max.
Settlement participant B	1	We have selected option 1 with the extra clarification being eligibility should be for all but subject to their own decision to become a committee member or not.
Clearing and Settlement participant C	1	We view as important that we always have representation on the ASX Business Committee. We are fine with Option 1 although do have some concerns on the additional numbers and if the committee becomes unwieldy.
Clearing and Settlement participant D	1	We expect that we remain a member of the Business Committee on the basis that we account for a significant proportion of trading, clearing and settlement activity in the Australian securities market. It is essential that we retain full transparency to matters of significant interest to ASX participants and that we remain engaged for participation at the ASX's main governance forum for market stakeholders. While we are generally open to expanding membership, we expect ASX to tightly manage BC meetings to ensure that discussion focusses on topics that hold an interest for the wider member base and which remain generally productive overall.
Industry Association A	1	At 30 participants, the committee size is already sub-optimal for decision making. The committee does enable communications around key clearing and settlement matters and allowing others to attend may improve engagements with clearing and settlement participants.
Industry Association B	1	Some consideration of different administrative arrangements (seating, different methods for meaningful engagement etc.) may need to be considered if the group gets much larger than say, 35 participants (which means that including ASX staff and other observers there may be 40+ people in the room).
Industry Association C	1	We have been in touch with most members who are Clearing and Settlement Participants and they agree that Option 1 is best, with all Clearing and Settlement Participants as members of the ASX Business Committee.
Industry Association D	1	Strongly support the reference to the importance of the chairing of the Committee, and also suggest a review of the impact of this change is scheduled at 12 months after it commences to ensure it is achieving the aim.
AMO	3	We consider that the size of the Business Committee is already unwieldy and inhibits effective interaction of members. Adding further participation would further exacerbate this. We take this opportunity to reiterate expectations that ASX Settlement and ASX Clear treat all AMOs equally and include us in discussions with ASX Settlement and ASX Clear participants on matters that impact us.



Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Advisory Group
Agenda Item No.	5b
Purpose	To update the Business Committee on the Advisory Group
Prepared by	Andrew Jones, General Manager, Securities & Payments
Action	For discussion
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

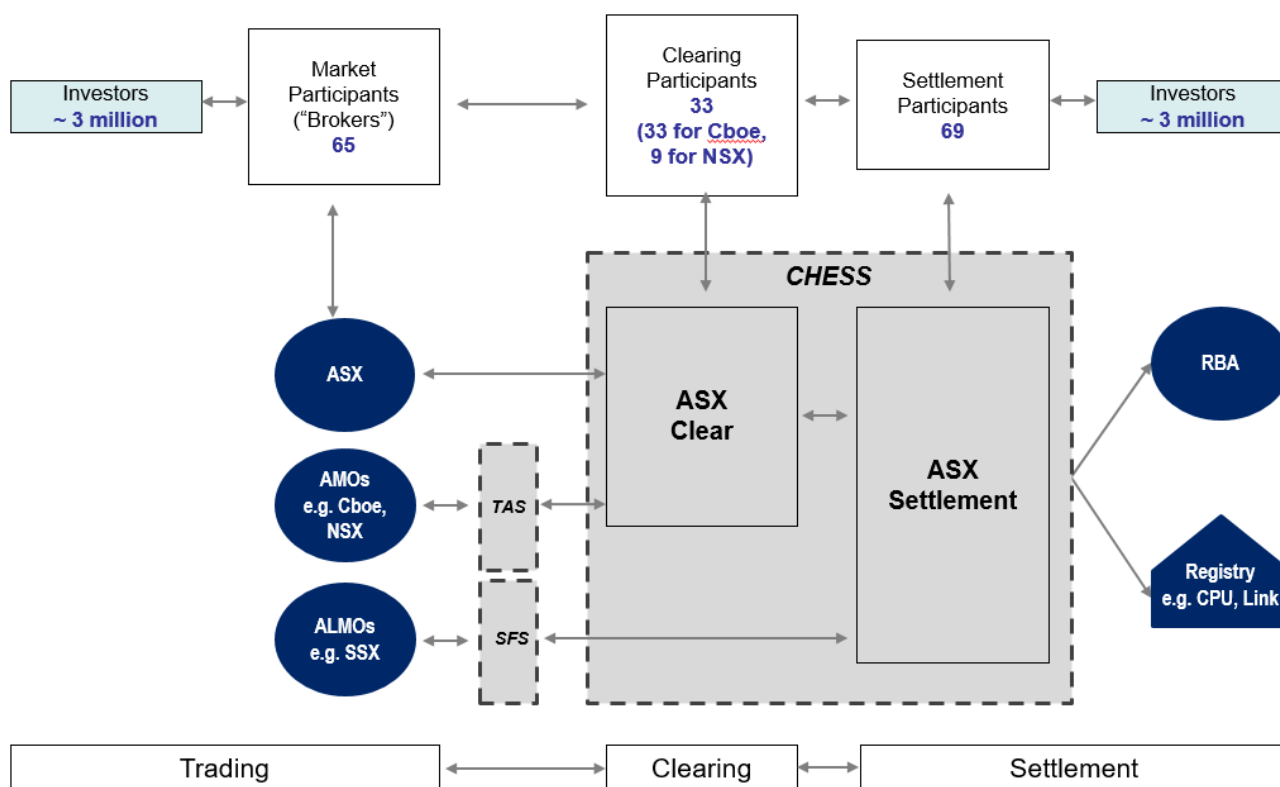
In July 2023, ASIC requested ASX to establish a high-level industry advisory group to advise on significant strategic clearing and settlement issues relating to cash equities trading in Australian markets with a focus on CHES replacement. In response, ASX established the Cash Equities Clearing and Settlement Advisory Group (**Advisory Group**) which held its first meeting on 31 August 2023. The Advisory Group is made up of experienced industry leaders drawn from different stakeholder sectors and fields of expertise. It will be deeply involved in providing advice and recommendations to ASX's Clearing and Settlement Boards on key strategic issues in the provision of cash equity clearing and settlement services.

At the 11 October 2023 Business Committee meeting, ASX will provide a verbal update of the membership of the Advisory Group, its purpose and how it differs from, and will interact with, the Business Committee.

Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Cash market clearing and settlement services - Operational performance
Agenda Item No.	6a
Purpose	To report on key performance metrics for ASX's clearing and settlement services
Prepared by	Suzy Munro, General Manager, Securities & Payments Operations Brendan Laird, Senior Manager, Settlement Operations
Action	For noting
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

Overview

Market Structure Overview



The clearing and settlement of equities performs a critical role in the operation of Australia’s financial markets, helping to reduce counterparty and systemic risk, and provide transaction efficiency and certainty for end investors.

Core processes that provide these benefits include novation, netting and settlement.

Service availability

ASX’s critical processes of novation, netting and settlement are supported in ASX’s core system CHES. A key metric for monitoring systems availability is the percentage of systems uptime as measured against target availability times. The service availability target for CHES is 99.80%.

For the September 2023 quarter, the average monthly system availability was 100% for CHES. The average monthly availability of CHES has been 99.99% between November 2011 and September 2023.

Trade Acceptance Service and Settlement Facilitation Service

The CHES system performs the clearing and settlement functions for the Trade Acceptance Service (TAS) for Cboe and NSX to submit trades into CHES and the Settlement Facilitation Service (SFS) for SSX.

The TAS and SFS availability target is 99.80% (the same as CHES).

For the September 2023 quarter, the average monthly system availability was 100% for the TAS and SFS. The average monthly availability of the TAS and SFS has been 99.99% between November 2011 and September 2023.

Settlement Performance

A performance metric for monitoring the CHES settlement batch is the fail performance.

For the September 2023 quarter, the daily average fail performance has decreased to 0.175% for the quarter, with a twelve month average of 0.221%.

The daily average fail performance was 0.259% over the 3-year period from October 2020 and September 2023.

ASX Settlement Operations review daily settlement data for recurring trends in the settlement failure rate to monitor and ensure that there are no systemic issues.

Month	September	August	July	June	May	April
Average Fail Rate	0.230%	0.130%	0.169%	0.165%	0.156%	0.242%
Maximum Fail Rate	1.599%	0.249%	0.360%	0.307%	0.253%	0.417%
Minimum Fail Rate	0.061%	0.066%	0.079%	0.083%	0.109%	0.170%
Average Value Based Fail Rate	0.047%	0.046%	0.101%	0.064%	0.065%	0.116%
Average Initial Fail Rate	0.022%	0.017%	0.019%	0.023%	0.021%	0.029%
Average Fail Rate (ex unilaterals)	0.199%	0.101%	0.127%	0.131%	0.126%	0.197%
# of days Fail rate > 0.50%	1	0	0	0	0	0
Batch Settlement Extensions	0	0	0	2	1	1
Fall back of Payment Provider	1	0	0	1	1	0

Reporting on clearing and settlement service performance

The key metrics for novation, netting efficiency and settlement efficiency for the September 2023 quarter are reported in **Attachment A**, supported by charts depicting the key metrics since January 2022 in **Attachment B**.

Members are invited to raise any questions in respect of this paper either before the 11 October 2023 Business Committee meeting or during the Questions Session of that meeting.

Attachment(s)

Attachment A: Summary metrics relating to the performance of ASX's clearing and settlement service

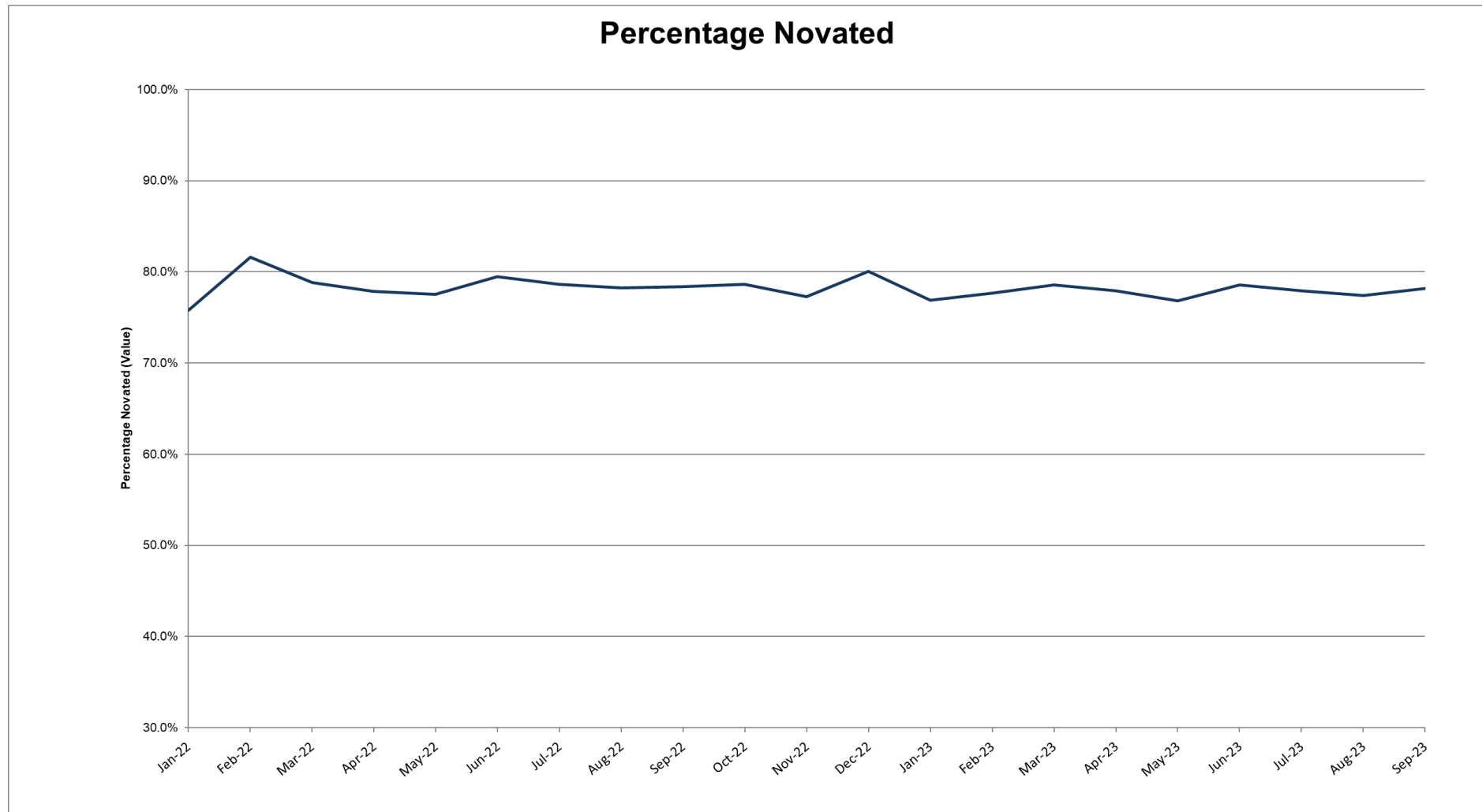
Attachment B: Performance of ASX's clearing and settlement services from January 2022 to August 2023

ATTACHMENT A – SUMMARY METRICS RELATING TO THE PERFORMANCE OF ASX'S CLEARING AND SETTLEMENT SERVICE

	September 2023 Quarter	June 2023 Quarter	March 2023 Quarter
System Availability (CHESS)	100%	100%	100%
System Availability (TAS)	100%	100%	100%
Trade registration			
Total Trades Accepted (ASX)	92,439,576	82,745,651	90,040,281
Total Trades Accepted (Cboe)	29,664,794	27,456,422	31,248,290
Total Trades Accepted (NSX)	66	118	90
Daily Average Trades across all AMOs	1,878,530	1,806,593	1,925,217
Highest Consecutive 2 Days Trade Registration across all AMOs	4,685,823	4,341,836	5,203,734
Clearing			
Daily Average Traded Value (On and Off Market) *	\$9.83 billion	\$10.20 billion	\$10.41 billion
Daily Average Cleared Value *	\$7.65 billion	\$7.94 billion	\$8.10 billion
Percentage Novated *	77.7%	77.7%	77.6%
Netting Efficiency (Value) *	71.4%	71.4%	71.3%
Netting Efficiency (Volume) *	98.8%	98.7%	98.8%
Daily Average Cleared Value Post-Netting	\$2.18 billion	\$2.26 billion	\$2.31 billion
Settlement			
Total Settlements (SSX)	0	0	0
Total Value of Settlements (SSX)	\$0	\$0	\$0
Batch Settlement			
Daily Average Settled Value (Including Non-Novated)	\$11.24 billion	\$12.18 billion	\$11.93 billion
Settlement Efficiency (Value)	99.94%	99.92%	99.90%
Average Daily CHESS Fail Rate (% Rescheduled to the next settlement date)	0.175%	0.183%	0.259%
Average Value Based Fail Rate (% Rescheduled to the next settlement date)	0.064%	0.079%	0.104%

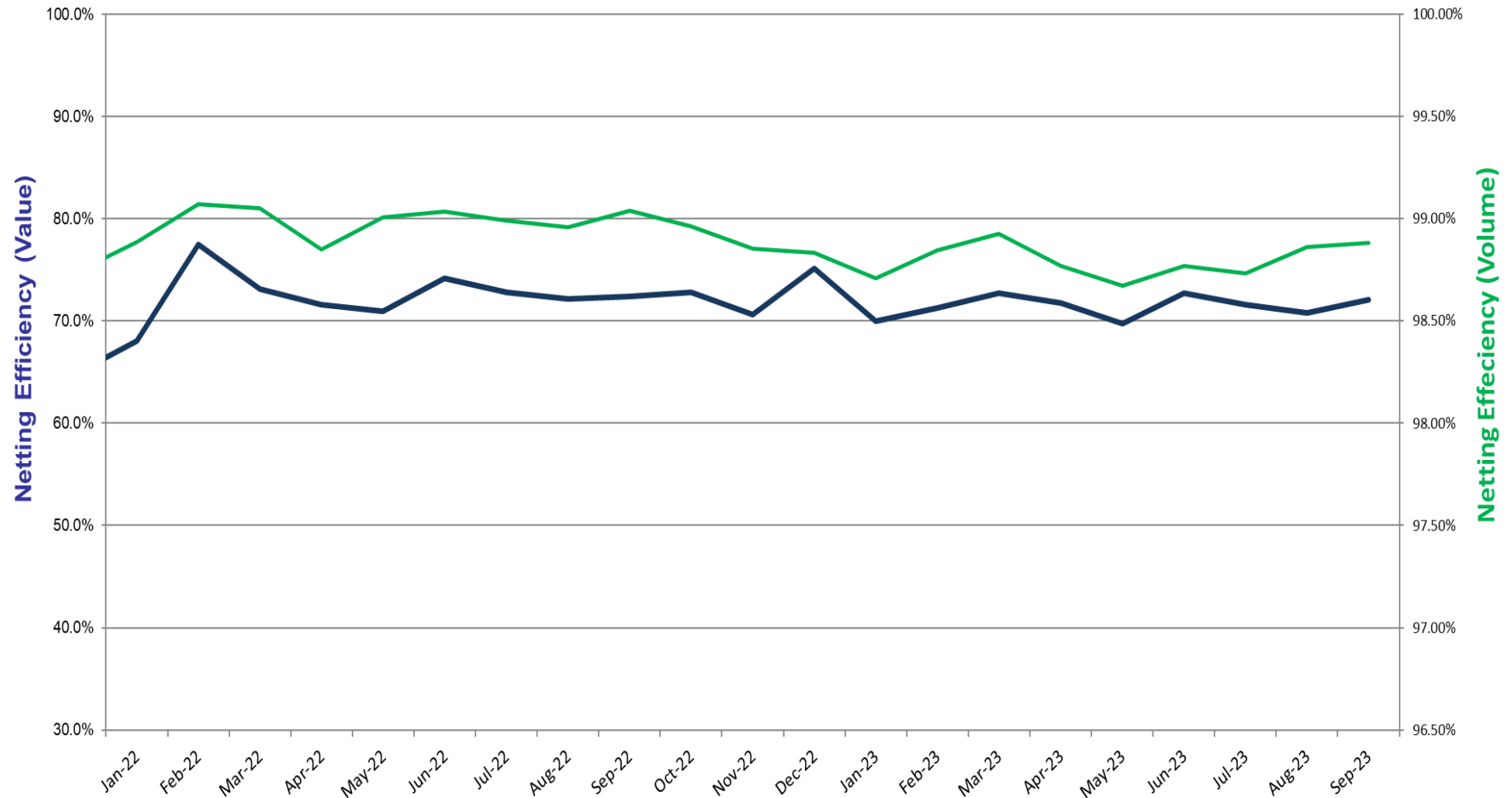
*Commencing March 2022 quarter, Traded Volume now includes transactions (for all AMOS) with settlement status "1" (e.g. crossings, informational)

ATTACHMENT B – PERFORMANCE OF ASX'S CLEARING AND SETTLEMENT SERVICES FROM JAN 2022 TO SEP 2023

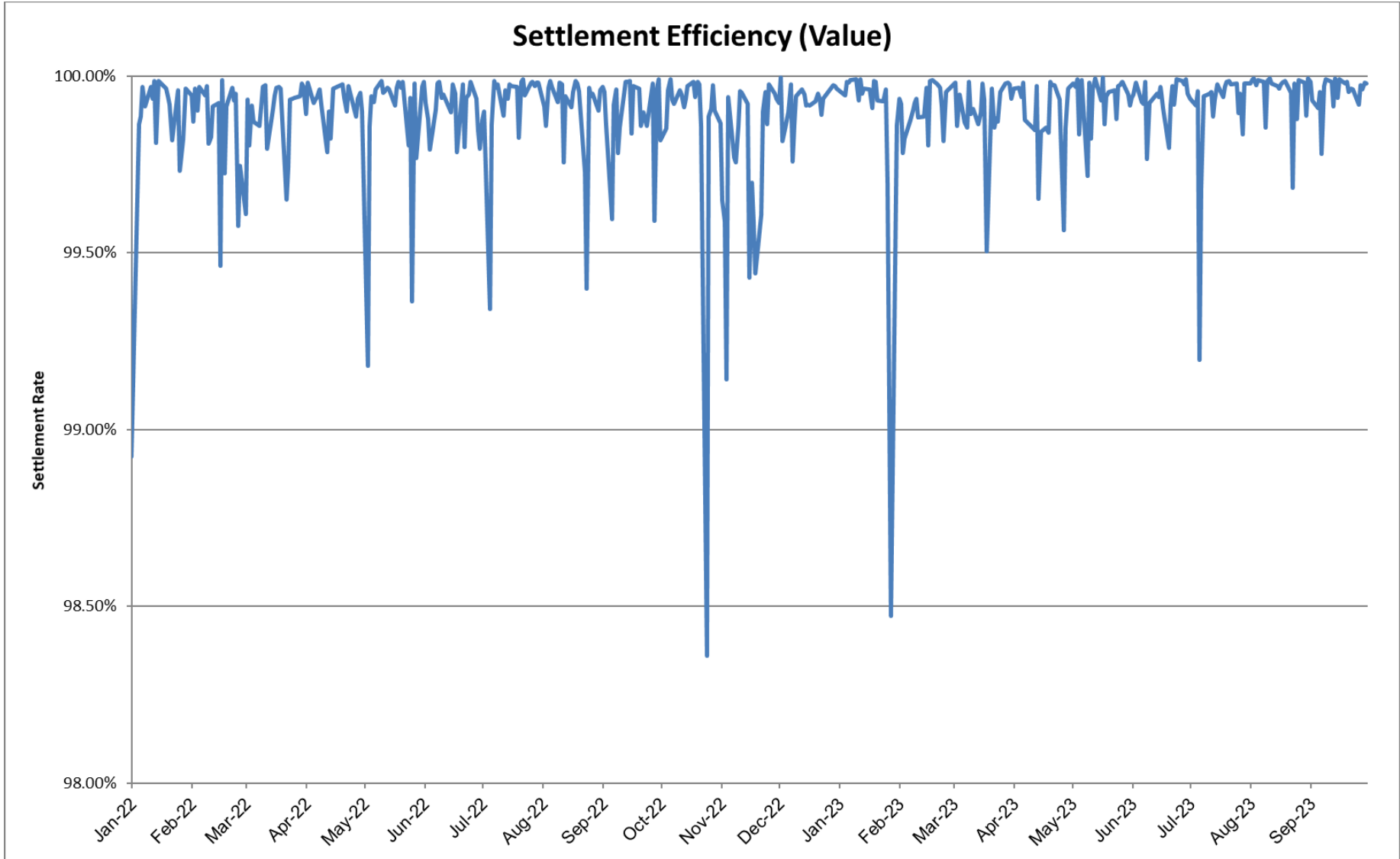


Commencing March 2022 quarter, Traded Volume now includes transactions (for all AMOS) with settlement status "I" (e.g. crossings, informational)

Netting Efficiency (Value and Volume)

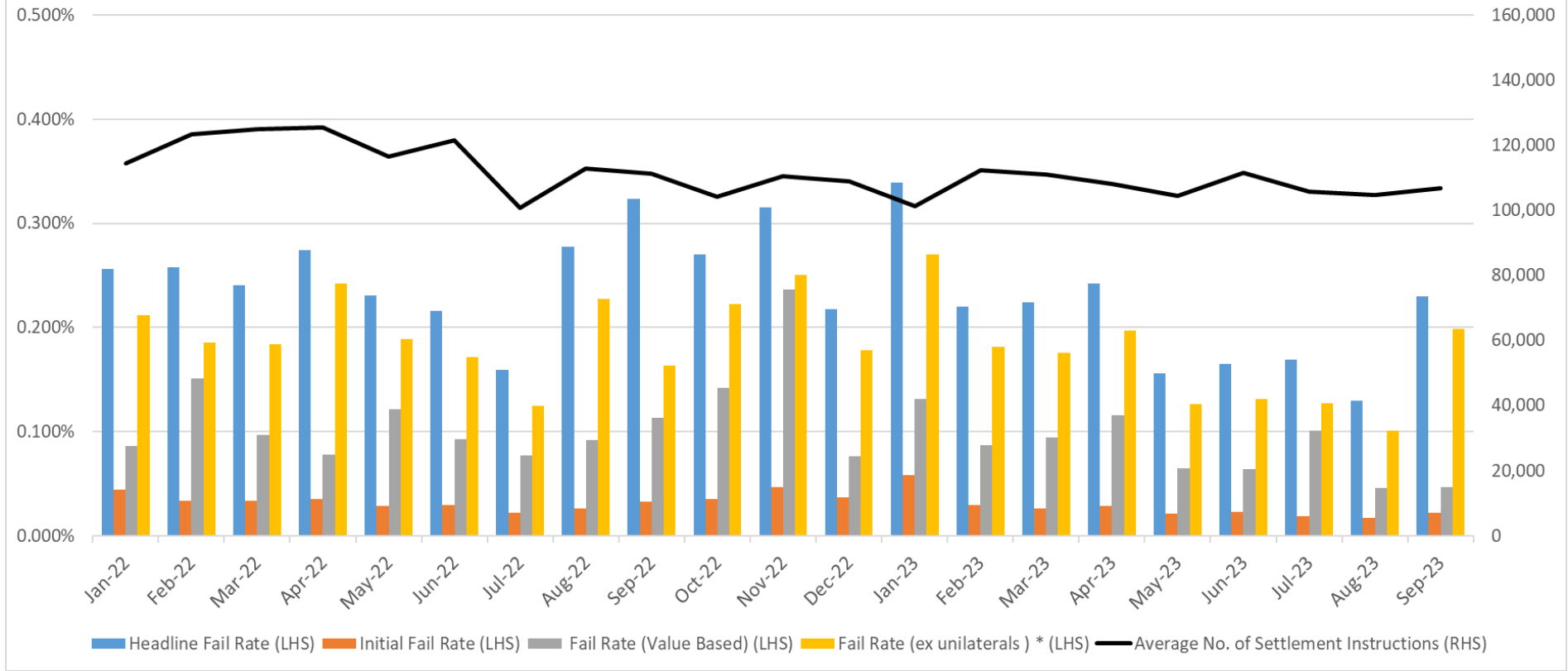


Commencing March 2022 quarter, Traded Volume now includes transactions (for all AMOS) with settlement status "I" (e.g. crossings, informational)



Commencing March 2022 quarter, Traded Volume now includes transactions (for all AMOS) with settlement status "I" (e.g. crossings, informational)

Average Fail Rates % Vs Settlement Instructions



Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Maintaining the stability of existing CHES
Agenda Item No.	6b
Purpose	To provide Business Committee members with an update on the programme of work to ensure existing CHES continues to provide the level of service, reliability and resilience required by the market until CHES replacement is implemented
Prepared by	Sabra Mott, General Manager, Technology, Securities & Payments
Action	For noting
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

OVERVIEW

The CHES service continues to operate within key performance indicators, achieving service level objectives for all of CY2022 and CY2023 to date:

- 100% availability
- No major incidents (Severity 1 or Severity 2)
- Successful disaster recovery test completed on 13 May 2023 with next disaster recovery test planned for 11 May 2024
- 100% headroom capacity threshold of 5M trade registrations: CHES peak day volume of 2,304,773 in August 2023, peak day volume was 4.587M in 2022, historical peak day volume 6.593M on March 13, 2020. CHES has been tested to process 10M.

The CS Facilities have established operational risk management frameworks with appropriate systems, policies, procedures and controls to identify, monitor and manage operational risk.

The objectives of the frameworks extend to, but are not limited to, targets for system availability, scalable capacity adequate to handle increasing volumes, physical and information policies that address potential vulnerabilities and threats, business continuity arrangements for timely recovery of operations and availability of well-trained and competent personnel.

Internal audits and independent external expert reviews are undertaken of operations, management processes and internal control mechanisms.

Outlook

ASX continues to invest in the ongoing supportability and maintenance requirements of current CHES.

- The “Special Report” on prescribed matters relating to CHES was provided to ASIC on 28 April 2023 (accompanied by a CS Board attestation) and an Audit Report prepared by EY to ASIC on 31 May 2023. ASX’s focus is to deliver the 27 initiatives outlined in the “Special Report”. Seven out of 27 have completed to date. ASX has engaged EY to provide assurance with respect to the roadmap progress and EY audit recommendations.

- Initiatives planned in FY24 that would have customer impact considerations are:

Initiative Short Description	Customer Impact (Y/N)	Indicative Date
Upgrade hardware security module (HSM) devices (i.e. encryption devices)	Y (UAT)	29 July – start of Nov 2023
Migrate all customers VPN access from v3 to v4	Y (internet customers only)	22 out of 25 upgraded
CHESS Access – upgrade the programming language and MQ series version	Y	June 2024
Migration of trade signals off CORE	Y (clearing participants)	TBC

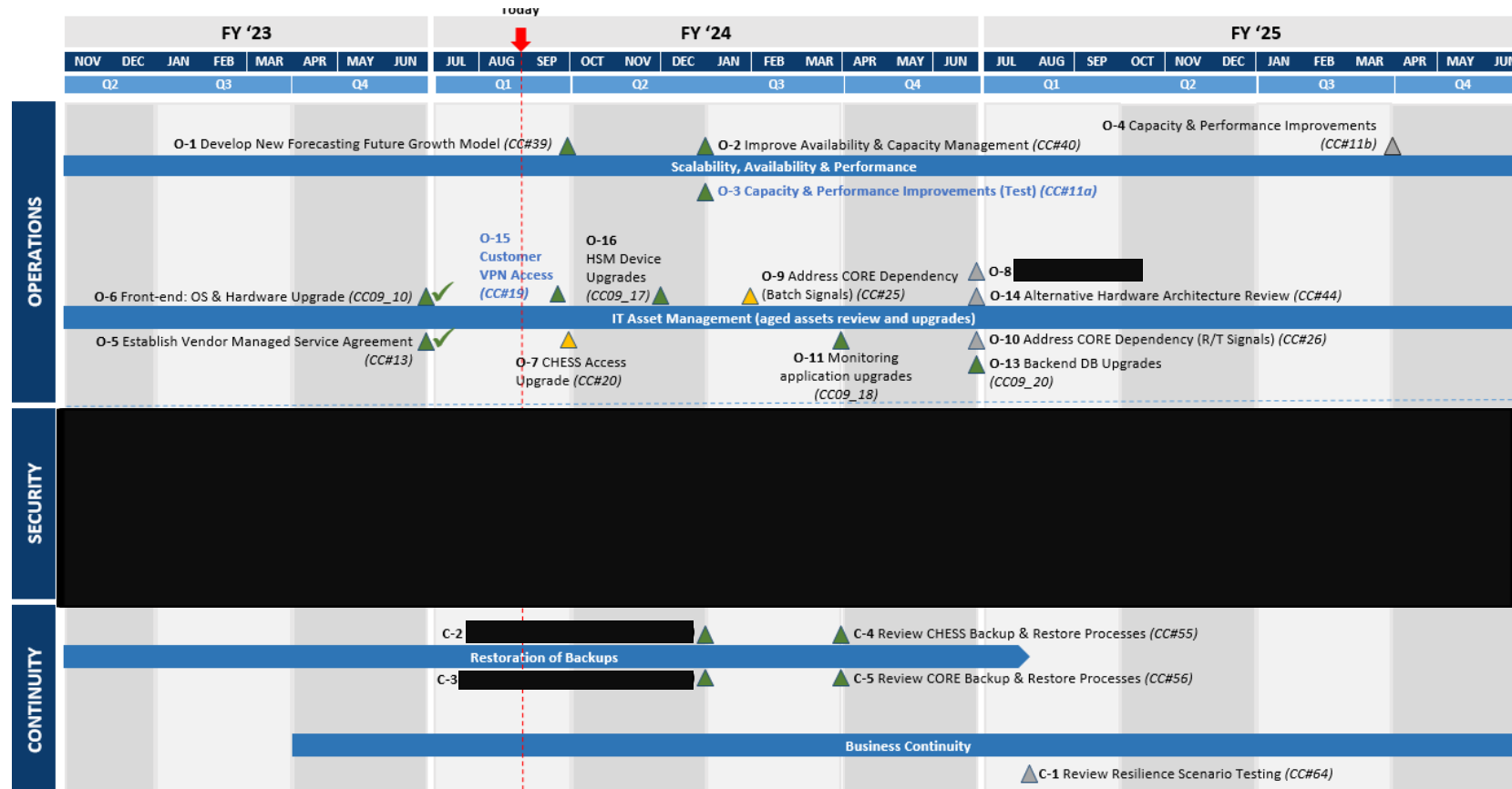
Other initiatives are to ensure the scalability and useful life of current CHESS continues until CHESS replacement can be safely implemented.

Members are invited to raise any questions in respect of this paper either before the 11 October 2023 Business Committee meeting or during the Questions Session of that meeting.

ATTACHMENT:

Attachment 1: CHESS Special Report Roadmap

Attachment 1: CHES Special Report Roadmap



Public Special Report Summary

By Phase

- 7 **COMPLETED**
- 14 **INFLIGHT**
- 6 **BACKLOG**
- 27 **TOTAL**

By RAG

- 19 **GREEN**
- 2 **AMBER**
- 0 **RED**
- 6 **NOT STARTED**
- 27 **TOTAL**

11 | ¹ O-12 [Redacted] this initiative falls outside the roadmap calendar range (target date is Dec 26).

LEGEND

By Phase ▲ = COMPLETED ▲ or ▲ or ▲ = INFLIGHT ▲ = NOT STARTED

By RAG ▲ GREEN ▲ AMBER ▲ RED

With no tick



Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Update on CHESS Action Program
Agenda Item No.	6c
Purpose	To update Business Committee members on the progress of work in the CHESS Action Program
Prepared by	Hamish Treleaven, Chief Risk Officer
Action	For noting
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

ASX operates in a highly regulated environment overseen by two independent Australian government agencies, the Australian Securities and Investments Committee (**ASIC**) and the Reserve Bank of Australia (**RBA**). Several regulatory requirements (delivered by way of either ASIC directions power notices or RBA Letter of Expectation) were announced in mid-December 2022 and mid-February 2023 in response to which ASX developed a CHESS Action Program.

CHESS Action Plan

The CHESS Action Program in **Attachment 1** provides an update on the progress made since the 19 July 2023 Business Committee meeting on addressing the regulatory requirements.

Members are invited to raise any questions in respect of the CHESS Action Program either before the 11 October 2023 Business Committee meeting or during the Questions Session of that meeting.

ATTACHMENT(S)

Attachment 1: CHESS Action Program

11 October 2023 ASX Business
Committee meeting – Agenda Item 6c

CHES Action Program

Business Committee update

October 2023

Progress since the last BC and expected progress to next BC: CHES Action Program

Category	RBA letter and CHES/Financial Stability Standards (FSS) items	Current CHES operational resilience	Accenture report recommendations & Special Report	Customer/ Stakeholder engagement	CHES Replacement Solution Reassessment	Governance and conflicts review	Partnership Program	Parliamentary Joint Committee (PJC) response and planning	FMI Reporting	Project, Program Portfolio Management (PPPM) Special Report
Purpose	Range of issues on current and new CHES to address outstanding Financial 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
Progress since last BC	Responses provided to RBA by 30 June	Special Report and EY assurance report provided to agencies on 30 April and 31 May respectively. ASX's report and EY's assurance report published in second week of June	ASX's report provided to ASIC on 30 June. EY assurance report provided to Agencies on 31 July. Reports made public in August	Technical Committee engagement strategy designed. EY assurance review	Solution reassessment underway. EY providing assurance	HSF review of CHES conflicts management arrangements complete and shared with ASIC/RBA. Published 28 July 2023	Initial tranche of payments made	ASX has attended a PJC hearing on 8 June. CBOE, NSX, Finclear, EY, DA, CPU have also attended on 27 June	ASX agreed delivery dates for CHES data with RBA	PM Partners engaged to help with assessment of ASX against framework. EY engaged to audit the Special Report
Expected progress through to next BC	Commentary in the RBA's FY 23 FSS Industry consultation on segregated account structure on hold for now (refer to the update in Agenda Item 2c)	Continued execution of current CHES roadmap. Engagement of EY to audit progress. ASIC's regulatory response to CHES Special Report	ASIC's regulatory response to Accenture Special Report	Publication of EY assurance review	Solution design and business case finalization. Publication of EY assurance review	Publication of CHES governance arrangements	Further payments pending	Next PJC hearing expected around October 2023	Final tranche of data delivery due November 2023	Special Report completed by 30 Sept. EY audit completed by 30 Oct. Both reports published first two weeks of November
Public reports	Yes	Yes	Yes	Yes	Yes	Yes	N/A	Yes	N/A	Yes
Has ASX met regulator expectations	Yes	Yes	Yes	Further work required	Yet to be completed, on track	Yes	N/A	N/A	Yet to be completed, on track	Yet to be completed, on track

Committee	Business Committee
Meeting date	11 October 2023
Agenda title	CHES Replacement project – Partnership Program update
Agenda Item No.	7a
Purpose	To provide Business Committee members with a project update on the CHES Replacement Partnership Program (Partnership Program)
Prepared by	Katie McDermott, General Manager, Business Design, CHES Replacement
Action	For noting
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

The Partnership Program is designed to recognise the important work that continues to be undertaken on a go-forward basis as ASX, together with industry, work together toward the successful progress and completion of the CHES replacement project.

Further information on ASX’s Partnership Program, including all eligibility criteria, can be found [here](#).

PARTNERSHIP PROGRAM STATUS

Participant Rebate Pool

The Participant Rebate Pool comprises \$15 million, distributed proportionately to eligible clearing and settlement participants based on C&S fees paid to ASX via a one-off fee reduction.

Key updates include:

- To date, ASX has issued rebates to the value of \$13,497,909.42 from the \$15 million available.
- 48 of 60 entities have accepted the invitation to participate in the Participant Rebate Pool.
- Nine organisations are pending signed paperwork before receiving their rebate. Five of these organisations are awaiting the CHES Replacement solution decision announcement before participating.
- Three organisations have indicated that they will not participate in this facility. Reasons included:
 - perception of small reward compared to the effort required to participate; and
 - changing business model in 2024.

Development Incentive Pool

The Development Incentive Pool is a forward-looking incentive program, making up to \$55 million available to entities developing at least one technology application to connect to and interact with the CHES replacement solution. An initial \$20 million was allocated for the first instalment paid from the Development Incentive Pool, and the remaining \$35

million allocated to payments that will be tied to future program milestones. The timing and nature of these milestones will be known after the publication of a revised project plan following the completion of the CHES Replacement solution redesign process.

Key updates include:

- To date, ASX has paid \$15,250,000 from the initial \$20 million instalment.
- 19 of 23 eligible entities have accepted the invitation to participate in the Development Incentive Pool:
 - Two organisations are pending signed paperwork before their initial payment can be made.
 - Two organisations are awaiting the CHES Replacement solution decision announcement before participating.



Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Management Accounts
Agenda Item No.	8a
Purpose	To draw the Business Committee's attention to the Management Accounts for ASX Cash Market Clearing and Settlement for FY23
Prepared by	Nick Wiley, General Manager, Equity Post Trade & Payments
Action	For noting
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

As part of ASX's commitment to transparent and non-discriminatory pricing under the ASX Cash Equities Clearing and Settlement Code of Practice (July 2023) (**Code of Practice**), ASX has committed to annually publish management accounts in respect of the clearing and settlement of cash equities in Australia. The management accounts are to be subject to review by an external auditor.

Management Accounts

The audited management accounts for the period 1 July 2022 to 30 June 2023 are published on ASX's website at <https://www.asx.com.au/about/regulation/clearing-and-settlement-of-cash-equities-in-australia/financial-statements>.

Members are invited to raise any questions in respect of the management accounts either before the 11 October 2023 Business Committee meeting or during the Questions Session of that meeting.

Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Annual Growth Threshold
Agenda Item No.	8b
Purpose	To draw the Business Committee’s attention to the Annual Growth Threshold under ASX’s Cash Market Clearing and Settlement Revenue Sharing Scheme
Prepared by	Nick Wiley, General Manager, Equity Post Trade & Payments
Action	For noting
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

ASX operates a cash market clearing and settlement revenue sharing scheme, under which all cash market clearing and settlement revenue earned by ASX above an annual growth threshold will be shared 50/50 between ASX and its cash market clearing and settlement participants. The annual growth threshold will be reviewed periodically and advised to participants.

Annual Growth Threshold FY23

The annual growth threshold for the period 1 July 2022 to 30 June 2023 (**FY23**) was 0%. As provided in ASX’s Annual Report for FY23, no revenue share rebate was applicable for FY23:

Cash market clearing revenue was \$68.5 million, down 9.7%. The value of on-market trades centrally cleared in the market was down 15.4% in line with total market value traded. The average daily on-market value cleared was \$5.9 billion down 15.1% on pcp aligned with lower trading volumes. A revenue share rebate was not applicable for FY23 due to the lower volumes (profit share of \$4.8m was payable in pcp).

Cash market settlement revenue was \$66.3 million, down 14.0%. The number of messages was down considerably on the pcp, including Transfer and Conversion messaging and dominant settlement messages down 22.8% and 5.8% respectively. As a result of the subdued year-on-year activity, a revenue share rebate is not applicable, consistent with pcp where no profit share was payable.

The above commentary excludes payments made under the rebate pool component of the CHES Replacement Partnership Program.

Annual Growth Threshold FY24

The annual growth threshold for the period 1 July 2023 to 30 June 2024 (**FY24**) will remain at 0%, as provided in the market notice published via ASX Online here:

<https://www.asxonline.com/public/notices/2023/September/0885.23.09.html>.

Members are invited to raise any questions in respect of this paper either before the 11 October 2023 Business Committee meeting or during the Questions Session of that meeting.



Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Cash Equity Clearing & Settlement Service Developments Annual Report
Agenda Item No.	8c
Purpose	To share the Cash Equity Clearing & Settlement Service Developments Annual Report with the Business Committee
Prepared by	Nick Wiley, General Manager, Equity Post Trade & Payments
Action	For noting
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

As part of ASX's commitment to customer and stakeholder engagement, under the ASX Cash Equities Clearing and Settlement Code of Practice (July 2023), ASX has committed to report annually to the Business Committee on the cash equities clearing and settlement service developments and investment projects progressed, and how it has taken into consideration the views of users.

Annual Report

The Cash Equity Clearing & Settlement Service Developments Annual Report for the period 1 July 2022 to 30 June 2023 is provided in **Attachment 1**.

Members are invited to raise any questions in respect of the report either before the 11 October 2023 Business Committee meeting or during the Questions Session of that meeting.

ATTACHMENT(S)

Attachment 1: Cash Equity Clearing & Settlement Service Developments Annual Report



Cash Equity Clearing & Settlement Services Developments

Annual Report

October 2023

Contents

Executive Summary	3
1. CHES Replacement project	3
1.1. Work up to 17 November 2022 project pause	3
1.2. Work since 17 November 2022 project pause	4
1.3. Looking forward	5
2. Other service developments and investment projects	6
2.1. CHES Front End Servers Infrastructure Upgrade	6
2.2. CHES Holding Statements – Electronic delivery option and enhancements to returned mail process	6
2.3. Customer Virtual Private Network (VPN) software upgrade	7
3. Future planned enhancements and other initiatives	8
3.1. Capacity, availability and performance improvements	8
3.2. CHES Hardware Security Modules (HSM) encryption device upgrade ..	8
3.3. Monitoring global developments regarding transitions to T+1 settlement.....	8
3.4. Initiatives to incentivise the take up of electronic holding statements – optional pricing model for sponsored HIN creation and maintenance	8
3.5. CHES Access upgrade	9
3.6. Re-write of CHES PC programming language	9

Cash Equity Clearing & Settlement Service Developments

Annual Report

October 2023

Executive Summary

This annual report has been prepared to provide an overview of the service developments and investment projects ASX has undertaken during the 12 month period to 30 June 2023 (FY23) for cash equity clearing and settlement services.

In November 2022, ASX confirmed a decision to reassess work on a significant investment project to replace CHES, and re-established the project on new terms. A summary of key FY23 activities for this project is provided in **Section 1** of this report.

During the period, and in response to a requirement from ASIC under s823B of the Corporations Act, ASX published a [Special Report](#) setting out a detailed view of ASX's arrangements for the support and maintenance of CHES to ensure it remains operationally reliable until a replacement solution is implemented.

Section 2 of this report summarises investments to core cash equity clearing and settlement services that have been delivered during the period. Planned future enhancements are outlined in **Section 3**.

After the period, in July 2023, ASX [announced](#) the formation of a new cash equities clearing and settlement Advisory Group to increase industry contribution to key strategic cash equity clearing and settlement issues. The new advisory group will focus initially on the CHES replacement project.

1. CHES Replacement project

1.1. Work up to 17 November 2022 project pause

Following updates on 28 March and 11 May 2022, where ASX advised the market that there had been delays to the expected delivery schedule of the CHES application software, on 3 August 2022 ASX announced that ASX and Digital Asset, ASX's application software provider, had identified that more development was necessary than previously anticipated to meet ASX's scalability and resilience requirements for the application.

To bring external expertise to assess the remaining work required to complete delivery of the application, ASX engaged Accenture to provide an external review. The review commenced in August 2022 and took 12 weeks to complete. Accenture's program of work was focused on a number of core issues which had been identified, including in relation to the performance, scalability and resiliency requirements for the new application. Accenture also assessed the ways of working between ASX and Digital Asset and provided recommendations to improve delivery and address the key findings in the external review.

In parallel, ASX progressed with software provider testing and technical accreditation, and working on a revised delivery schedule. This included engaging with stakeholders on the timing of project milestones, such as CHES user and industry testing, operational readiness, market dress rehearsals and implementation. Based on information at the time of the 3 August 2022 announcement, ASX confirmed that it did not expect that the go-live date could be before late 2024, however noted the external review would provide further information to help ASX determine and communicate the CHES replacement plan.

On 17 November, ASX [published](#) the external report by Accenture and a market announcement on the findings from the review. The announcement stated that the report identified significant challenges with the solution design and its ability to meet ASX's requirements. As a result, ASX announced that current activities on the project had been paused while ASX revisited the solution design, with all aspects of the CHES replacement project to be reassessed. In light of the solution uncertainty, ASX announced the derecognition of capitalised software of \$245-255 million pre-tax in 1H23. Subsequently, a playback of the external review findings and a Q&A session was held at the 23 November 2022 Implementation and Transition Working Group.

At the 23 November 2022 Implementation and Transition Working Group, ASX reiterated that current CHES remained secure and stable and was performing well, and that ASX would continue to invest in its capacity and resilience.

1.2. Work since 17 November 2022 project pause

Following the CHES replacement project pause in November 2022, ASX recognised the significant effort of the industry to date to support the planned delivery of the CHES replacement project. Through the process of taking on the feedback and input provided by the industry, observers and regulators, ASX committed to an extensively revised CHES replacement project approach and enhanced industry engagement.

Effective from 17 November 2022, ASX appointed an experienced financial services technology executive as Project Director for the next phase of the CHES replacement project, reporting to the CEO.

Additionally, ASX established the CHES Replacement Technical Committee which has wide attendance from participants, industry associations, registries and technology vendors at its monthly meetings. The CHES Replacement Technical Committee has a clear mandate to deliver feedback on topics that impact the market such as scope and design, stakeholder readiness and testing activities, and migration approaches.

ASX also recognised that the CHES replacement project would need to engage the industry for longer than initially anticipated. In recognition of this, ASX established the CHES Replacement Partnership Program, setting aside up to \$70 million to support future stakeholder participation for the successful progress and completion of the CHES replacement project.

The Partnership Program has two components: the Participant Rebate Pool and the Development Incentive Pool. Designed to provide support to clearing and settlement participants through a one-off fee reduction, the Participant Rebate Pool comprises \$15 million and has been distributed proportionately to eligible participants based on their clearing and settlement fees paid during the period of 1 January 2023 to 30 June 2023. The Development Incentive Pool is designed to encourage continued participation in the CHES replacement project for stakeholders who are building to the new platform. Up to \$55 million will be available to eligible stakeholders. As at 3 October 2023, ASX has provided approximately 28% of the development incentive funds as initial payments to eligible stakeholders. The amount of further development incentive payments will be determined based on future CHES replacement program milestones, which will be known following the publication of a revised project plan that will be developed after completion of the solution redesign process.

We continue to work towards announcing the new solution design in the final quarter of this calendar year, subject to consultation with the new industry Advisory Group, industry input and regulatory expectations. Since the establishment of the CHES Replacement Technical Committee in February 2023, there has been an ongoing and deepening engagement with industry on the solution design process for CHES replacement.

The Technical Committee has held monthly meetings with its members since its inception to gather extensive feedback and input to support the solution definition process.

In March 2023, Technical Committee Members were provided the opportunity to provide input and refine the existing CHES Replacement scope. Based on initial member feedback, a plan for deeper-dive workshops on three specific scope areas was proposed. Members were invited to reach out within their organisations to ensure attendees were subject

matter experts. Consequently, ASX facilitated three scope refinement workshops independently moderated by industry bodies AFMA and ACSA on the following:

1. *Sub-Register and Issuer Sponsored enhancements and process improvements (25 May)*
2. *Settlement improvements and enhancements (19 June)*
3. *Corporate Action processing efficiencies (12 July).*

The output of the workshops were detailed business canvases, articulating industry problem statements and ultimately identifying Scope Objectives for CHES Replacement's consideration. Business canvases and the associated Scope Objectives were shared back to Technical Committee Members for further discussion and to enable a recommendation to the Business Committee and Boards of ASX Clear and ASX Settlement for inclusion in the design consultation for CHES Replacement. Similarly, feedback has also been sought on topics including preferred interface option and implementation approach. The feedback captured continues to be reiterated across the business to inform and support the concurrent internal redesign activities.

The improving industry engagement has been supported by an ongoing and consistent approach to capturing industry feedback and input through a number of mechanisms.

The Technical Committee engagement and value has been tracked by; a regular survey to members capturing any formal feedback on the evolution of the committee and its intended purpose, standalone opportunities to provide feedback whilst in the committee meetings themselves, and ad-hoc feedback gained through bilateral meetings with committee members.

In addition, the Technical Committee has further tracked and acted on industry input through formal and ad-hoc opportunities to capture the effectiveness of its detailed scope refinement workshops with the committee members. The approach for the scope refinement workshops reflects a consistent approach to the Technical Committee feedback using formal feedback surveys, in-workshop feedback process steps, and ad-hoc bilateral feedback.

ASX has used these mechanisms to evolve and improve its engagement and communication processes with its CHES replacement project stakeholders both over the life of the revised project to date and into the future.

1.3. Looking forward

The industry engagement process will continue, leading up to and after the high level solution announcement, targeted for the quarter ending December 2023.

Once the solution approach has been announced, the CHES replacement project team will seek further stakeholder engagement and consultation on scope, design, readiness and testing activities, implementation approach, and project timelines.

The inauguration of the new Advisory Group is anticipated to further strengthen industry engagement on the strategic delivery of the CHES replacement project.

2. Other service developments and investment projects

CHES continued to operate within key performance indicators, achieving service level objectives for all of FY23:

- 100% availability;
- No major incidents (Severity 1 or Severity 2);
- A successful disaster recovery test was completed on 13 May 2023 with the next disaster recovery test planned for 11 May 2024; and
- 100% headroom capacity threshold of 5 million trade registrations; CHES has been tested to process 10 million trade registrations.

Following ASX's November 2022 announcement to pause activity on the CHES replacement project while the solution design is revisited, ASX is committed to continued investment in the ongoing supportability and maintenance requirements of current CHES, including:

- Internal and external support requirements;
- Obsolescence of the end-to-end infrastructure stack – hardware and software (“aged assets”);
- System capacity and performance scalability; and
- Overall system risk assessment.

Other initiatives are to ensure the scalability and useful life of current CHES continues until CHES replacement can be safely implemented.

During the reporting period, ASX progressed a number of incremental enhancements to CHES and/or associated processes and reports. The key enhancements related to core clearing and settlement services are summarised below.

2.1. CHES Front End Servers Infrastructure Upgrade

To contribute to the ongoing supportability of the CHES service, the CHES Front End Server Infrastructure (Operating system and hardware) was upgraded in the CHES production environment on Saturday 3 June 2023. ASX issued a [market notice](#) on 8 March 2023 notifying participants of the upgrade, and participants were encouraged to continue to perform their usual testing in the CHES external test environments. Whilst there was no functional change associated with the infrastructure upgrade, the upgrade was important to maintain ongoing supportability of CHES.

2.2. CHES Holding Statements – Electronic delivery option and enhancements to returned mail process

As noted in ASX's September 2022 Cash Equity Clearing and Settlement Services Developments annual report, ASX introduced a new service on 13 December 2021 that provides shareholders in listed companies and investment products with the option to receive their CHES holding statements and notifications electronically.

In July 2022, ASX also transitioned the printed paper statements to a new provider, aligning the design of statements and notifications to the contemporary design featured in the electronic statements. This enabled an improved returned mail process where details of both bounced emails and returned mail are now delivered to the sponsoring broker, electronically.

Effective 1 July 2022 unlimited electronic holding statements sent to holders will be included within the Issuer Services subscription charge to issuers, and ASX has also reduced the issuer fee for paper statements to \$0.50 per statement.

To encourage take up by participants on behalf of their customers, ASX has continued to waive the fee that would normally be charged to the broker to send the message to CHES advising an email address and opting in to the service for an existing holder.

At the end of June 2023, nearly 105,000 holders have opted in to receive electronic holding statements, supported by 29 brokers.

2.3. Customer Virtual Private Network (VPN) software upgrade

ASX has been working with customers who use an internet VPN (iVPN) solution to connect to CHES, to upgrade their customer site VPN software to maintain ongoing support arrangements with the software vendor. Vendor support is important to ensure security vulnerabilities are addressed and participant connectivity to CHES is not compromised. This connectivity method is generally used by smaller participants and is no longer offered to new participants.

As at the end of FY23, 20 customers' VPN access had been migrated from v3 to v4, and as at end September 2023, 4 of the 5 remaining customers had completed their migration. ASX is working with the final customer to complete their migration.

3. Future planned enhancements and other initiatives



ASX publishes a quarterly Market Notice to advise of technology upgrade releases planned for the next 6 to 12 months across the various customer facing platforms, including CHES.

3.1. Capacity, availability and performance improvements

The [Special Report](#) published by ASX on 5 June 2023 included a detailed view of ASX's arrangements for the support and maintenance of CHES to ensure it remains operationally reliable until a replacement solution is implemented. The report includes 27 initiatives focused on ensuring that risks are managed appropriately. These relate to capacity, availability, performance, and IT management as well as security and continuity. Initiatives specific to improving capacity, availability and performance in current CHES (section 1.4.3 CHES Roadmap Summary) include:

- Develop and imbed a more predictive trade forecasting model
- Improve the capacity management framework
- Conduct a stress test for over 10 million trades per day to identify breakpoints
- Assess and develop possible capacity and performance uplifts
- Remove dependency from internal upstream dependent system.

3.2. CHES Hardware Security Modules (HSM) encryption device upgrade

On 28 June 2023, ASX issued a [market notice](#) advising participants of a planned upgrade to CHES HSM encryption devices on the CHES Production primary and secondary environments on Saturday 25 November 2023. The upgrade will contribute to the continued supportability of the CHES service. CHES users are expected to test connectivity over the weekend to ensure readiness for Monday 27 November 2023.

3.3. Monitoring global developments regarding transitions to T+1 settlement

In FY23, ASX continued its engagement with Business Committee members regarding global market transitions to T+1 settlement, the immediate concerns for the Australian market where other markets have or will transition to T+1 settlement, and to discuss the potential transition to T+1 settlement in Australia. This engagement will continue over FY24 and beyond.

In May 2023, Business Committee members were surveyed on appetite and considerations for a transition to T+1 settlement in Australia, including timing. ASX has proposed that broad consensus among industry participants is needed to support a transition in Australia. At that time (mid 2023), and as played back to the Business Committee in July 2023, the survey responses demonstrated that there is no broad consensus on transition to T+1 settlement. Other themes included the desire for continuing active engagement with issues and developments related to settlement cycle compression in Australia and offshore, consideration of timing of any transition to T+1 relative to CHES replacement delivery, the need for adequate forward planning for budgeting to support change proposals, and interest to better understand the cost/benefit profile including margin and capital implications.

ASX will continue to work with the Business Committee over FY24 to prepare for the impact locally of the transition to T+1 settlement in other markets, and to consider next steps for the Australian market.

3.4. Initiatives to incentivise the take up of electronic holding statements – optional pricing model for sponsored HIN creation and maintenance

In July 2023 ASX commenced more formal engagement with participants to discuss a new optional (based on subscription per HIN rather than per message charges) pricing model for sponsored HIN creation and maintenance, available on HINs that had opted in to electronic statements, with resulting savings for most participants. Engagement has been conducted via the Business Committee and ongoing bilateral meetings with sponsoring participants.

ASX expects that the new model will encourage participants to transition their investors to take up electronic statements to reduce their costs and in turn will reduce the fees payable by issuers for paper CHES holding statements.

The initiative to increase the number of investors opted in to electronic statements will also reduce paper, printing and postage activities.

Reactions to date from sponsoring participants have been positive. ASX plans to provide a more formal engagement plan and implementation timeline at the October 2023 Business Committee meeting.

3.5. CHES Access upgrade

ASX provides two applications to interested customers/CHES users to interact with CHES – CHES Access and CHES PC (refer to section 3.6). ASX had planned to decommission both applications as part of CHES Replacement go-live, and had communicated this to current users of the respective services. Given CHES needs to continue to operate for a longer period of time than was originally planned, ASX has identified these services as requiring evaluation for supportability.

CHES Access is a Java based application that allows those customers who use the service to interface with CHES. A technological upgrade of CHES Access is required to ensure the components that are currently out of support will be upgraded to versions that allow their continued support into the future, and up until the time at which CHES replacement is implemented. The CHES Access uplift project will comprise:

- Upgrade of the current "out of support" Java version and supporting components that constitute the underlying CHES Access infrastructure, to enable ongoing supportability; and
- Rewrite of the current CHES Access Operator Console application from an "out of support" Visual Basic infrastructure to an updated C# infrastructure, to enable ongoing supportability.

Go-live is targeted by the end of FY24. Impacted customers have been notified that the CHES Access uplift project is in progress. Further details regarding timelines, operating system requirements and testing requirements will be communicated to impacted customers no less than six months prior to go-live (minimum six month notification window).

3.6. Re-write of CHES PC programming language

CHES PC is a Windows based application that allows those customers who use the service to interface with CHES and also enables messages to be sent to and retrieved from CHES. Customers can chose to transfer data to and from another compatible back office system. CHES PC is written in Visual Basic 6 (VB) which is currently unsupported. In FY24, ASX will progress planning to address this risk.



Committee	Business Committee
Meeting date	11 October 2023
Agenda title	FY23 Regulatory Expectations audit
Agenda Item No.	8d
Purpose	To inform the Business Committee of the outcome of the annual Regulatory Expectations audit
Prepared by	Hamish Treleaven, Chief Risk Officer
Action	For noting
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

As part of ASX's commitment to customer and stakeholder engagement, under the ASX Cash Equities Clearing and Settlement Code of Practice (July 2023) (**Code of Practice**), ASX has committed to commission an annual independent review (**audit**) of its governance, pricing and access arrangements benchmarked against the Council of Financial Regulators' *Regulatory Expectations for Conduct in Operating Cash Equity Clearing and Settlement Services in Australia* (September 2017) (**Regulatory Expectations**). The Regulatory Expectations and the Code of Practice provide that the outcomes of such an audit are to be provided to the Business Committee, among others.

ASX commissioned PricewaterhouseCoopers (**PwC**) to perform the audit for the financial year 1 July 2022 to 30 June 2023 (**FY23**). A copy of PwC's audit report is available [here](#).

RESULTS OF AUDIT

PwC concluded that in their opinion, ASX has complied, in all material respects, with the Regulatory Expectations as evaluated against the Compliance Framework (i.e. the code of Practice and related policies and procedures) for FY23. One exception was raised by PwC in respect of Regulatory Expectation 1(f), however the nature of the exception was not significant enough to impact PwC's overall opinion.

PwC's audit report included several observations with recommendations for improvement in respect of which ASX are in agreement. ASX Management's response to each recommendation is set out in the report but they have been collated for convenience in **Attachment 1**.

Members are invited to raise any questions in respect of PwC's audit report either before the 11 October 2023 Business Committee meeting or during the Questions Session of that meeting.

ATTACHMENT(S)

Attachment 1: ASX's response to audit recommendations



Attachment 1: ASX's response to audit recommendations

PwC recommendation	ASX Management's response
User input to governance	
<p>The Technical Committee Chair should continue to endeavour to provide agendas and associated papers at least one week prior to meetings to allow members adequate time to review supporting materials ahead of meetings.</p>	<p>Clause 8.2 of the Technical Committee Charter provides that The Chair will endeavour (ASX's emphasis) to provide the agenda and presentation material or papers to all members at least one week prior to each meeting. Circumstances may arise where it is not possible, despite ASX's best endeavours, to provide agendas and associated papers at least one week prior to a meeting. If this is the case, ASX may consider postponing the meeting to accommodate the one week requirement but this will be dependent on the urgency of the subject matter, members' availability and other practical considerations.</p>
<p>Agendas and associated papers for special purpose Business Committee meetings should be circulated to members in line with the timeframes set out in the Business Committee Charter.</p>	<p>ASX acknowledges that agendas and associated papers for special purpose Business Committee meetings should be circulated to members at least one week prior to the relevant meeting consistent with the Business Committee Charter. ASX will ensure that it adheres to this standard for future special purpose Business Committee meetings.</p>
<p>While the Business Committee Charter requires agendas and papers to be shared within one week of the meeting, consideration should be given to the amount of content within the packs, and if feasible shared earlier than the timeframes set by the Charter to allow for adequate review time.</p> <p>ASX should consider incorporating a contents page (or other mechanism) for Business Committee meeting packs to allow for easier navigation of reading material.</p>	<p>Contents of Business Committee meeting packs - ASX acknowledges that large meeting packs do not promote a positive member experience. ASX intends to review, in consultation with members, the structure of the agenda, and to actively seek on an ongoing basis, member input on topics which they do or do not wish to be included in the agenda. ASX will endeavour to provide meeting packs (or significant papers) to members more than one week prior to each meeting date where feasible.</p> <p>Easier navigation of Business Committee meeting packs - An additional column will be added to agendas which will detail the page number in the PDF meeting pack that an agenda item commences.</p>

<p>The proposed terms of reference for the external audit of ASX's governance, pricing and access arrangements carried out in accordance with the Regulatory Expectations should be presented to the Business Committee at a date earlier than the July Business Committee meeting, to allow adequate time for review and comment if applicable. The window of time where comment can be made should be defined and formally communicated to Business Committee members.</p>	<p>ASX acknowledges that the proposed terms of reference for the external audit of ASX's governance, pricing and access arrangements carried out in accordance with the Regulatory Expectations should be presented to the Business Committee at a date earlier than the July Business Committee meeting. ASX will address this recommendation by seeking to bring the proposed terms of reference forward to the March Business Committee meeting. The window of time where comment can be made will be defined and formally communicated to members at the time of the relevant meeting.</p>
<p>Business Committee survey results should be accompanied by details on the respondent cohorts (such as industry association, CS participant) to facilitate effective interpretation of results, except where to do so would identify individual respondents.</p> <p>ASX should consider the appointment of an independent chair to the Business Committee to facilitate discussion, and to convene, set the agenda, and preside over meetings.</p>	<p>Business Committee Survey results - ASX acknowledges that these results should be accompanied by details on the respondent cohorts. ASX will include these details in future survey results.</p> <p>Independent Chair - ASX expects to appoint an Independent Chair to the Business Committee by October 2023.</p>
<p>There is an opportunity to further embed Regulatory Expectation accountabilities into the KPIs of staff members who are not accountable executives, as well as further formalise and document how responsibilities relating to the Regulatory Expectations have been disseminated to select staff within the CS reporting line.</p>	<p>ASX will seek to further embed responsibilities relating to the Regulatory Expectations in the KPIs or performance objectives of relevant staff members who are not accountable executives. ASX will review and where necessary revise documentation of how responsibilities relating to the Regulatory Expectations should be disseminated to relevant staff within the CS reporting line.</p>
<p>Fair, transparent and non-discriminatory pricing of CS services</p>	
<p>ASX should consider providing the underlying calculation of revenue-sharing rebates to its CS users.</p> <p>ASX should ensure that adequate time is given to CS users when seeking feedback on industry matters.</p>	<p>Revenue-sharing rebates - ASX acknowledges that more details on the calculation of the rebate should be provided to clearing and settlement participants. ASX intends to address this recommendation in future years in which a rebate is payable.</p> <p>Feedback on industry matters - ASX will endeavour to provide adequate time to CS users to respond to industry consultation matters.</p>
<p>ASX should consider enhancing its existing pricing framework to clearly articulate to its users how the current prices of CS services reflect the efficient cost of providing these services.</p>	<p>ASX intends to develop and publish a pricing policy which will include ASX making an annual assessment of revenues earned and the efficient costs of service provision, with a mechanism for the management of any over/under earn. The outcomes of the annual assessment will be published.</p>

Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Action items
Agenda Item No.	9a
Purpose	To provide responses to open actions and recommend their closure, where applicable
Prepared by	Business Committee Secretariat
Action	For approval
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

At the 19 July 2023 Business Committee meeting, three action items were raised. Responses to two of the action items are due for the 11 October 2023 Business Committee meeting, with updates provided in the table below.

The Business Committee is requested to approve the closure of action item 23-7-1.

Item number#	Action	Due date	Status	Owner	Response
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 (Nick Wiley)	ASX will consider how it represents figures and statistics (such as survey results) in future, including (where practical and meaningful) by presenting survey results based on respondents' share of clearing and settlement volumes. ASX intends to represent figures and statistics at least by stakeholder cohort. Examples of this are given in Agenda Item 5a (Membership Structure Survey), Agenda Item 3b (Scope recommendations) and Agenda Item 2a (T+1 settlement).
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 (Karen Webb, Hamish Treleaven)	ASX has extracted the required data and is about to commence the analysis of the margin changes for a move from T+2 to T+1 settlement. ASX is consequently on track to present this information at the December meeting. The analysis to identify default fund capital savings is more complex

					and will be provided at a meeting in 2024.
23-7-3	ASX to re-circulate to members the CHESS 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, CHESS 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 (Tim Whiteley)	Response to be provided on the day.

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



Committee	Business Committee
Meeting date	11 October 2023
Agenda title	Forward work program
Agenda Item No.	9b
Purpose	To update the Business Committee on the forward work program for the remaining Business Committee meeting in 2023
Prepared by	Business Committee Secretariat
Action	For noting
Proposed recommendation to Boards of ASX Clear and ASX Settlement (if applicable):	Not applicable

BACKGROUND

Inclusive of the 11 October 2023 meeting, the Business Committee has met five times in 2023.

The sixth and last Business Committee meeting for 2023 is scheduled on 6 December 2023. Other than the standard items (minutes of previous meeting etc.) and subject to input from members on additional items or items to be removed, the forward work program for the 6 December 2023 Business Committee meeting is expected to be:

Date	Topics
6 December 2023 4.00-6.00pm	<ul style="list-style-type: none">• Current CHES - service performance, maintaining stability• T+1 settlement• CHES Replacement including Technical Committee updates• Update on the CHES Action Program• Forward work program for 2024

Members are invited to suggest topics for inclusion or removal in the forward work program at any time by contacting the Business Committee Secretariat at BC.Secretariat@asx.com.au.

Note that the 6 December 2023 Business Committee meeting will be followed by the traditional end of year drinks to thank members for their participation throughout 2023.