



13 September 2024

Mr Tim Whiteley
Chief Information Officer
ASX Limited

By email: CHESReplacement@asx.com.au

Dear Mr Whiteley

Consultation on the Scope and Implementation of CHES replacement Release 2

AFMA commends ASX on its continued detailed and responsive consultation process for the CHES Replacement Program.

As a result of an extensive program that has gathered the insights of the wider market the proposals in this consultation are as broadly as expected. This is a pleasing outcome.

AFMA has also welcomed the recent direct dialogue on the technical matters of most interest to members.

We trust our more detailed comments below are of assistance and that like the questions they answer, you find they have already been well-flagged.

This consultation marks a significant milestone for setting the key parameters of the revised replacement project and in our view bodes well for the work in the years ahead.

Yours sincerely

Damian Jeffree
Head of Financial Markets, Exchanges and Digital

Q 1. Please provide any feedback on the proposed design, scope, and schedule for Release 2.

AFMA members have a range of views on the optimal design for Release 2 reflecting the diversity of experience in domestic and global markets.

Some members are comfortable with the design as proposed by ASX although subject to the additional points we make below on roll-back.

Some members would prefer a further breaking up of Release 2 by Issuer, while some would support further breaking up by Participant.

The further breaking up by Functions has also received support and there are various ways this might be approached as discussed.

We will not replay the recent discussions on these options here but note the industry's interest in further derisking of Release 2 noting the challenges with timing.

There are a range of preferences, and we would encourage ASX to give them due consideration.

We note the following common themes emerging:

(1)

Most notably Participants are strongly supportive of a detailed roll-back plan(s) for Release 2. We would not include 'roll-forward' options within scope for this purpose.

A typical roll-back plan might be based around a long weekend release of 4 days. During such a period a roll out could be completed, the system run in production and in the event it had significant problems, it could be rolled back and settlement achieved using existing CHES.

This type of contingency arrangement is standard for large projects and while unlikely to be deployed, substantially reduces the risks of an extended period without clearing and settlement services.

The potential for such a roll-back scenario actually being required should be discounted by over 95% given the extensive parallel runs and testing outlined in broad strokes by ASX.

Highly detailed walkthroughs will be required to ensure a thorough understanding of the testing plans and industry readiness including detailed plans for each phase, which should include contingency planning for each phase and go-live/post go-live.

(2)

Members are also keen on a deep understanding of the proposed testing regime. Participants would be reassured by an opportunity to review and provide feedback on this before it is finalised. We understand ASX has plans in place in this regard.

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(3)

Participants also support scoping the feature set of the second release conservatively. Participants support making this trade-off to prioritise a successful launch that can be built on. This would be in the context of a strong commitment to follow up with the 'Day 2' items promptly. The priority at this point should be replacing existing CHES capabilities with enhancements to follow (excluding ex entitlement functions as discussed below).

Q 2. Please provide any feedback on the proposed testing and industry readiness approach for Release 2.

Some Participants are concerned that the timeline is compressed given the number of elements happening in parallel. As more information can be released this will assist firms understand how much fresh integration work will be required.

Q 3. Please provide any feedback on the proposed approach to interoperability for CHES replacement.

AFMA has not identified any issues relating to interoperability.

Q 4. Please provide any feedback on the proposed timing and approach regarding transitioning to a T+1 settlement cycle (noting that any such transition will not form part of the CHES replacement project)

AFMA members have a range of views on the case for T+1 and its timing.

AFMA understands the importance for both avoiding additional substantial investments in the existing CHES system, the risks associated with delays to the CHES replacement project, and the concentrated regulatory scrutiny, as drivers for prioritising the completion of CHES replacement.

Q 5. Does your organisation support the scope of the clearing upgrades for CHES replacement Release 2? a) Supportive b) Conditionally supportive (please explain below) c) Not supportive (please explain below) d) Not applicable to my organisation Please provide context to your response above.

AFMA supports the proposed scope of the proposed clearing enhancements for Release 2 including (1) Trade Registration with continuous netting (2) Position Accounts, and (3) Account segregation as outlined in the consultation paper.

Q 6.1. Would your organisation use an optional segregated account structure if offered by the CHES replacement system? a) Yes – as part of Release 2 b) Possibly – as part of Release 2 c) Possibly – post Release 2 d) No current intention e) Not applicable to my organisation

Q 6.2 If you answered yes or possibly to Q 6.1, which account structure would suit your organisation best? a) Segregated house and omnibus client b) Individual client segregated positions c) Segregated positions for third party clearers d) Not applicable to my organisation e) Other (please specify below) Please provide context to your response above

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Q 6.3 Please provide any further information about the proposed optional segregation models.

NA

Q 7. Does your organisation support the proposed scope of settlement for CHES replacement Release 2? a) Supportive b) Conditionally supportive (please explain below) c) Not supportive (please explain below) d) Not applicable to my organisation Please provide context to your response above

AFMA supports the proposed scope, and welcomes the improved functionality listed in Table 6. The proposed support for pre-settlement matching should position the industry well in combination with external service providers for bringing the efficiencies needed to minimise settlement issues should the industry move to T+1. Members suggest any related reference fields should be optional. Members would support further exploration of which fields should be optional and mandatory and discussion on the implications of those requirements to the settlement life cycle.

We support the continuance of DvP model 3 with a single daily batch, and the improvements to payments functions.

Q 8. Does your organisation support simplifying the processing of 'ex transactions' (i.e. Cum Entitlement Balances)? a) Supportive b) Conditionally supportive (please explain below) c) Not supportive (please explain below) d) Not applicable to my organisation Please provide context to your response above

In principle AFMA supports simplification of the treatment of 'ex transactions', however, feedback from our members has suggested that some additional functionality may be required to avoid orphaned rights. For example, members suggest that ex transactions EG CA Override should remain possible for all transaction or none to prevent instances where a bilateral transaction settles ex div but the related priming transaction is not able to be settled with the same basis.

We note that a complete functional set of ex transactions functions is necessary for day 1 of Release 2.

We appreciate ASX's engagement on this topic and look forward to continuing to work with the Business Design Working Group process to finalise the integrated design.

Q 9. Does your organisation support the proposed scope of subregister and Issuer sponsored processes for Release 2? a) Supportive b) Conditionally supportive (please explain below) c) Not supportive (please explain below) d) Not applicable to my organisation Please provide context to your response above

AFMA welcomes the proposed enhancements to rejection messaging, and more generally supports the proposals.

Q 10. Does your organisation support the proposal to enhance registration details and allow for the sharing of additional investor information? a) Supportive b)

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Conditionally supportive (please explain below) c) Not supportive (please explain below) d) Not applicable to my organisation Please provide context to your response above

At this time further information is requested on these enhancements to enable firms to reach a view.

Q 11. What additional investor information would your organisation find useful to be transmitted via CHES? a) Tax File Numbers (TFNs), Australian Business Numbers (ABNs) and Australian Company Numbers (ACNs) b) Foreign Account Tax Compliance Act (FATCA) / Common Reporting Standard (CRS) details such as tax residency and foreign tax identification number(s) c) Bank account details d) Mobile numbers e) Other (please specify) Please provide context to your response above

AFMA supports the provision of the above fields and notes that the provision of bank account details (or more generally electronic payment details – which might be a more future-proof approach) will be necessary to meet the Government’s timing for the end of cheques.

Q 12.1 Does your organisation support the proposal for corporate action elections without payment (e.g. DRP/BSP) within the scope of Release 2 of CHES replacement? a) Supportive b) Conditionally supportive (please explain below) c) Not supportive (please explain below) d) Not applicable to my organisation Please provide context to your response above

AFMA supports this functionality.

Q 12.2 Does your organisation support the proposal for corporate action elections with payment (e.g. Rights, Share Purchase Plans) within the scope of Release 2 of CHES replacement? a) Supportive b) Conditionally supportive (please explain below) c) Not supportive (please explain below) d) Not applicable to my organisation Please provide context to your response above

Participants support these proposals.

Q 13. Does your organisation support the proposal for the ability to transmit additional corporate action distribution information within the scope of Release 2 of CHES replacement? a) Supportive b) Conditionally supportive (please explain below) c) Not supportive (please explain below) d) Not applicable to my organisation Please provide context to your response above

We fully support this functionality.

Q 14. Does your organisation support the proposed connectivity and interface options in CHES replacement Release 2? a) Supportive b) Conditionally

supportive (please explain below) c) Not supportive (please explain below) d) Not applicable to my organisation Please provide context to your response above

AFMA raises no concerns in relation to the connectivity and interface options.

Q 15.1 Would your organisation be interested in using an optional data API if offered by the CHES replacement system as part of Release 2? a) Yes b) Possibly (please explain below) c) No current intention d) Not applicable to my organisation Please provide context to your response above

Q 15.2 If you responded yes or possibly to

Q 15.1, what would your organisation use the data API for? a) Holding Balances b) Other (please specify below) Please provide context to your response above

NA

Q 16. Given the other strong security controls, do you support ASX's proposal not to use ISO 20022 message signing of both input and output? a) Supportive b) Conditionally supportive (please explain below) c) Not supportive (please explain below) d) Not applicable to my organisation Please provide context to your response above

Participants have not raised concerns with this proposal.

Q 17. Which (if any) months should be avoided for CHES replacement Release 2 go-live? Please provide supporting detail for each month that should be avoided.
a) January b) February c) March d) April e) May f) June

Members have expressed views that the EOFY (June) is best avoided, as is the end of the year/New Year blackout/shutdown period given staffing levels. Further discussion should find consensus.

Q 18. Do you have any further feedback on ASX's proposed implementation approach for Release 2?

AFMA notes that the changes are likely to result in changes to the number of messages, and as this is a result of design choices, members support the position it should not drive an increase in fees.

19.1 If a decision is made to move to T+1, is your organisation supportive of ASX's proposal that a T+1 go-live date be at least 12 months after the Release 2 go-live date, and at a minimum 18 months after a decision to transition to T+1? a) Supportive b) Conditionally supportive (please explain below) c) Not supportive (please explain below) d) Not applicable to my organisation Please provide reasoning for your response above

Members support the proposed timing gaps should a decision be made to move to T+1.

Q 19.2 Are there any other factors that ASX should consider regarding approach and timeline for a transition to T+1 settlement? If so, please provide further detail.

We do not have further comments at this time.

Q 20.1 With the information currently provided, is your organisation supportive of the time for Software Providers to complete their build and test in preparation for accreditation? Please explain, including relevant detail if not supportive

AFMA supports more time to be allowed for the integration of updated vendor systems with proprietary participant systems. This is necessary due to the extensive integration of these vendor systems and the need for their builds to complete before participants can complete work on their integration.

Q 20.2 To assist Software Providers with their industry testing, do you have any further feedback on testing scope, duration or approach?

No further comments.

Q 21.1. With the information currently provided, is your organisation supportive of the time for CHES Users to complete their testing in preparation for Operational Readiness? Please explain, including relevant detail if not supportive

NA

Q 21.2 To assist CHES Users with their industry testing, do you have any further feedback on testing scope, duration or approach?

The industry supports ASX's proposal to provide greater detail on testing. AFMA views industry testing as critical to the success of the project.

Q 22. To assist CHES Users with their go-live readiness, do you have any further feedback on testing scope, duration or approach?

Not at this time.