

ASX CHESS REPLACEMENT

Business Design Working Group
Cum Entitlement Balance and Market Claims

17 September 2024



Acknowledging Country

ASX acknowledges the Traditional Owners of Country throughout Australia. We pay our respects to Elders past and present.

Artwork by Lee Ann Hall, *My country My People*

Housekeeping

Troubleshooting

- > Please mute yourself when not speaking
- > Please use the 'raise hand' feature on MS Teams if you would like to ask a question
- > Please introduce yourself when talking for the benefit of all members
- > Dial in details (audio only):
 - +61 2 7208 4607
 - Phone Conference ID: 441 880 414#
- > Presentation materials were distributed before the meeting and will be published on the website

Important Information

Competition Law Reminder

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

Agenda

01 Introduction and Agenda

02 Cum Entitlement Balance (Continued)

03 Entitlement Transfer

04 Market Claims (Diary Adjustments)

05 Next Steps

01

Introduction and Agenda

01 – Detailed Workshop Agenda

#	Topic	Duration
01	Introduction and Agenda <ul style="list-style-type: none">> Workshop objectives and outputs	15 mins
02	Cum Entitlement Balance (continued) <ul style="list-style-type: none">> Recap> Feedback & proposed next steps	30 mins
03	Entitlement Transfer <ul style="list-style-type: none">> Scope objective & survey recap> Discussion	15 mins
	Break	15 mins
04	Market Claims (Diary Adjustments) <ul style="list-style-type: none">> Scope objective & survey recap> Current state & problems> TCS BaNCS functionality> Proposed future state	45 mins
05	Next Steps	15 mins
	Total workshop duration	2.5 hours

01 – Workshop Objectives and Outputs

The purpose of the BDWG is to achieve broad consensus on additional scope for CHES replacement and to develop the Business Design Document for each objective.

Objectives

- > Collect advice and expertise to understand industry needs in relation to their Market Claims
- > Evaluate ways to simplify the Cum Entitlement Balance and Basis of Movement in the context of Release 2
- > Overview of the request for entitlement transfer and related considerations
- > Establish any industry design considerations for new or changing scope items
- > Agree on proposed solutions for CHES

Outputs

- > Business Design Document that includes:
 - Functional outcomes
 - Process flow (high level)
 - Access channels (eg User Interface, ISO 20022 messaging)
 - Any other functional considerations
 - Any non-functional considerations



What outcomes would you like to achieve for your organisation from this workshop?

02

Cum Entitlement Balances – Further Discussion

02 - Cum Entitlement Balance - Recap

The Aim

- > Minimise build and test complexity for ASX and the industry in the CHES replacement project
- > Leverage existing features of the TCS BaNCS MI product where possible
- > Avoid building significant customisation that could make future support and upgrade cycles more difficult
- > Retain high value business functionality and minimise industry impact

Recap (from the BDWG session held 22 August)

- > An alternative proposal for handling entitlements was presented which would leverage existing functionality in the TCS BaNCS MI product offering (balance restrictions and entitlement reporting)
- > During the session, feedback was received in relation to the proposal, including industry use cases
- > Additionally, it was raised that the potential impacts to Share Registries were not fully evaluated and would benefit from further discussion

02 – Cum Entitlement Balances – Feedback Overview

Feedback received

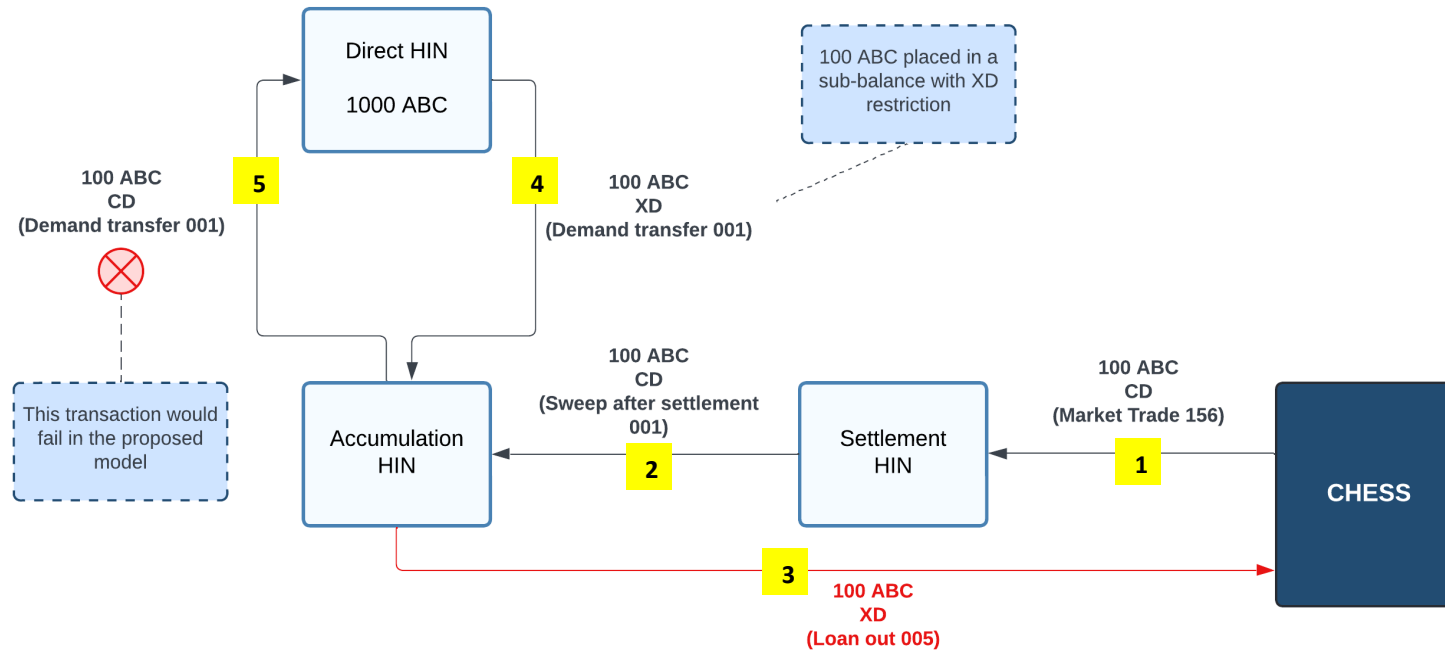
Feedback received during the session, in relation to the proposal, and next steps are outlined below:

#	Feedback Issue	Proposal
1	Restricting transactions to non-batch only, whilst low in volume, would have a high impact to the market (particularly in relation to securities lending transactions)	Extend support to batch transactions under the current proposal (ex restricted balances)
2	Restricting registry transactions (transfers & conversions, holding adjustments) could be problematic for some use cases, such as for ETF creation/redemption	Extend support to all transfer & conversion and holding adjustment workflows
3	Potential impacts to registries systems and processes in relation to the revised/simplified reports	Ensure equivalent information is provided (where possible) in the new report(s) that is available in the existing CMV, CEB and TCB reports
4	Provision of entitlement information prior to end of day Record Date to give earlier access to entitlement information	Consider extending balance reporting to ex date and record date (EOD). Intra-day ad-hoc requests may be supported if strictly required
5	Solution does not provide the ability to move unattached entitlements from HINs (via an ex then cum movement)	Under the revised proposal, this scenario would no longer be supported, and workarounds would need to be investigated



Are there additional system or operational controls that could be put in place to prevent the need to sweep residual entitlements?

02 – Unattached CEB – For Discussion



1. A market trade settles during the ex period for 100 units of ABC (on a cum basis) to the Settlement HIN.
2. Stock is swept to the Accumulation HIN on a cum basis.
3. Stock is lent out to another Participant (on an ex basis), the CEB remains 'unattached' in the Accumulation HIN as the holding balance is zero.
4. Units are moved from the House Nominee pool to the Accumulation HIN (on an ex basis). The holding balance in the Accumulation HIN is 100 ABC.
5. Units are moved from the Accumulation HIN to the House Nominee pool (on a cum basis) – CEB is moved to House Nominee HIN for the dividend payment..



This example is highly dependent on the order of events - if steps 4 and 5 are **completed in reverse** order, and there is time to complete them before step 3, then the scenario can be avoided.
Are there any barriers to reversing the order of these steps?

02 – Ex Transaction Use Cases

Usage Statistics Recap and Revised Support

CHESSTransaction	Ex transactions over a 14 month period	% transactions overall	Additional information	Proposed Support (revised)
001 – Demand Single Entry CHESSTo CHESSTransfer	48,756	-0.002%	Transfers to Sponsored to Accumulation (priming) - 86% Transfers between Direct Accounts – 10%	Support
003 – Transferor Submitted Demand Transfer	6,681	-	Transfers to Accumulation (priming) - 98%	Support
005 – Demand Dual Entry CHESSTo CHESSTransfer	5,573	-0.002%	Market Transactions – 65%, Off-Market – 1% Securities Lending – 32%	Support
007 – Demand CHESSTo Issuer Sponsored Transfer	57	-	-	Support – equivalence for Registry transactions
011 – CHESSTo Issuer Sponsored Conversion	11	-	-	Support – equivalence for Registry transactions
015 – Issuer Sponsored to CHESSTransfer	1294	-	Transfers to Accumulation (priming) - 95%	Support
017 – Issuer Sponsored to CHESSTransfer Conversion	4	-	-	Support – equivalence for Registry transactions
101 – Dual Entry Settlement Notification	6,470	>0.001%	Market Transactions – 92% Off-Market – 2.5% Securities Lending Transactions – 5%	Support – “ex” transactions in batch settlement is important
105 – Single Entry Settlement CHESSTo CHESSTransfer	43	-	Transfers to Accumulation Entrepot Transfers between Direct Accounts (Custodians)	Support – “ex” transactions in batch settlement is important
107 – Scheduled Settlement CHESSTo CHESSTransfer	3,404	-	Transfers to Sponsored to Settlement Entrepot – 100%	Support – “ex” transactions in batch settlement is important
421 – Securities Transformation	0	-	-	Support – merger of 421/425
425 – Holding Adjustment	41	-	ETFs with ADJ or ALT reason code	Support - ETF allotments during ex-period
431 – Takeover Transfer	0	-	-	No longer support
Market Trades & Net Broker Obligations	0	-	-	No longer support

03

Scope Objective: Cum Entitlement Transfer

03 – Scope Objective

Cum Entitlement Balance Transfer - Recap

3.4 Evaluate opportunities to facilitate the transfer of entitlements (pre and/or post Record Date) ensuring this does not impact Issuer schedules.

Problem

- > The inability to split the Cum Entitlement Balance (CEB) from the underlying shares has resulted in manual workarounds for the market, particularly for Stock Lending arrangements and could be used where settlement has failed

Industry Proposed Solutions

- > Enable the ability to transfer CEBs separately from the underlying shares
- > Review the appropriate timeframe for entitlement transfers
- > Harmonise all Corporate Actions to follow the same process

Business Benefits

- > Stock Lenders and Participants will benefit from separating Cum Entitlement Balances and the underlying share through reduction of risk and manual processes
- > Settlement fails are corrected by transferring CEBs post record date
- > CEB transfers ensure any attached Franking Credits are delivered to the correct account holder - no manual chasing up required
- > Eliminating a cum market would simplify the determination of entitlements based on settled positions at COB on the record date. This may reduce claims or at least eliminate the need for auto CHESSE adjustments

Risk / Challenges

- > This is a major deviation from current business procedures
- > Change management required for new processes, however risks can be greatly reduced by utilising a solution that has already been adopted in other markets
- > Legal and regulatory considerations
- > Time pressures require Registries to have the register finalised by record date.

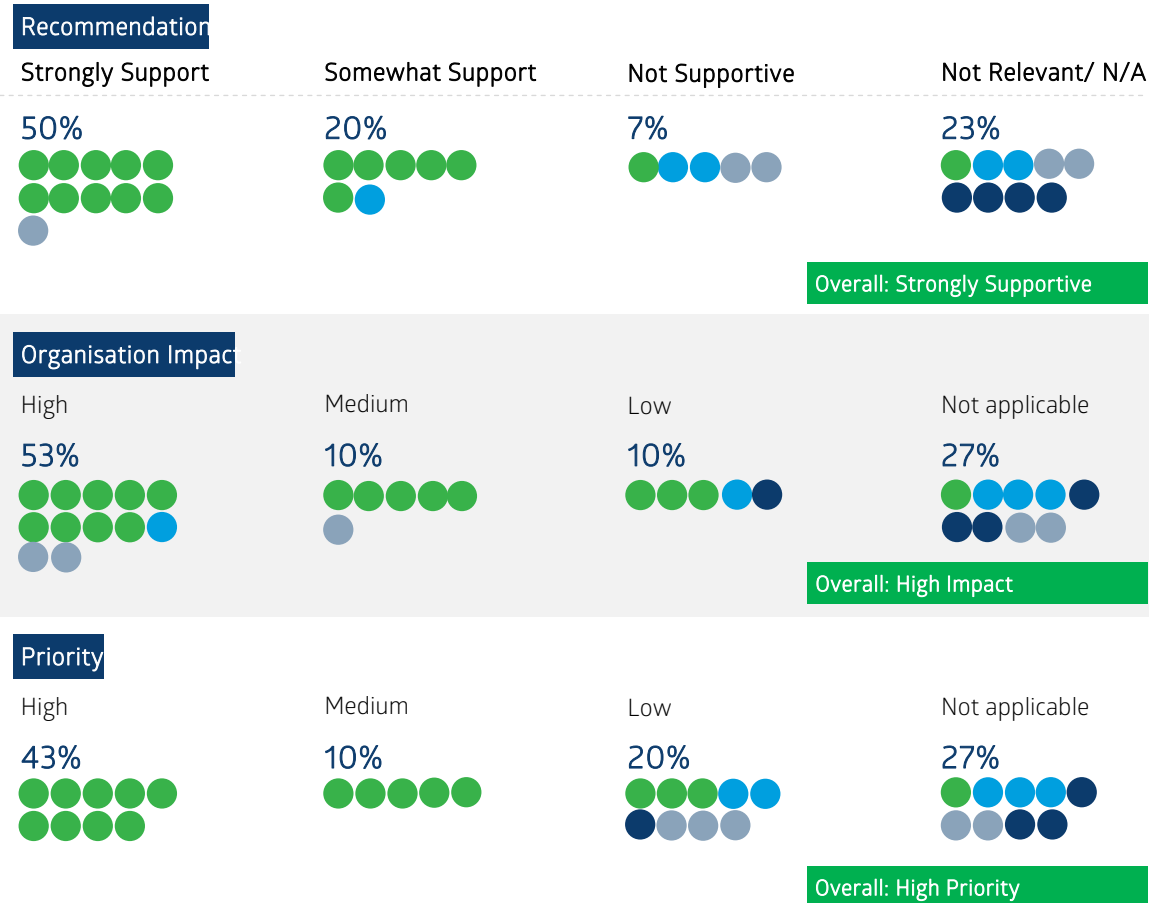
03 – Previous Survey Playback

Cum Entitlement Balance Transfer

Scope Objective 3.4

Cum Entitlement Balance Transfer

Evaluate opportunities to facilitate the transfer of entitlements (pre and/or post Record Date) ensuring this does not impact issuer schedules.



Insights

C&S Participants

Participants who were supportive indicated that benefits include resolving major issues with stock lending and improvements in claims. A major benefit cited that it would remove the current inefficient manual work-arounds used for stock lending and pave the way for the removal of cum-entitlement benefits altogether. Some Participants viewed this as a critical feature for T+1.

Software Providers

Some software providers were not supportive of this change and questioned the extension of the use of Cum Entitlement Balances as we progress towards T+1.

Share Registries

Share Registries had low support for this feature as they did not consider there had been sufficient analysis of the costs of implementation such as operational, regulatory change and technical costs.

03 – Cum Entitlement Transfer – Recommendation

Overview

Legal and regulatory considerations

- > Facilitating the standalone transfer of entitlements would result in a number of complex legal and regulatory considerations for ASX and/or industry, including:
 - whether an entitlement is a 'financial product' capable of being transferred under the Corporations Act
 - whether ASX is permitted under its CS facility license and the Corporations Regulations to facilitate the transfer of entitlements
 - whether tax law permits a person who does not hold a parent financial product at any point in time to receive an entitlement (i.e. possible concerns relating to facilitating 'dividend washing')
 - how a person to whom an entitlement is to be conferred is identified and their right to the entitlement tracked – this may result in the need to establish a formal 'Register of Entitlements' and the assignment of a security code / ISIN to an entitlement.

Technical considerations

Supporting the transfer of entitlements may fundamentally change the way entitlements are managed in the market and would likely result in significant technical uplift for ASX, Registries, Participants and their Software Providers.

Recommendation (for discussion)

Whilst the challenges may not be insurmountable, they are likely to go above and beyond what can be supported as part of the CHES replacement project and what industry have indicated their appetite for change is.



Are there any alternative approaches that could be considered instead?

04

Market Claims (Diary Adjustments)

04 – Scope Objective – Automated Market Claims

Automated Market Claims - Recap

3.1 Review and enhance the current processes for automated claims (diary adjustments) to ensure it continues to meet the market needs.

Problem

- > The current diary adjustment process has some limitations. Value adjustments are often estimates and subject participants to risk regarding FX exposure and final prices
- > There is an inefficient process when there is a dividend claim resulting from a failed market trade. The receiving Participant is required to chase up the ASX to source the franking credit statements from the delivering Participant. This causes delays for the recipient receiving the full entitlement
- > If there is a failed/unmatched trade that parties agree to, claiming dividends and settlement must occur outside of CHES. This is a real issue for participants that CHES does not currently address
- > Participants are unable to notify the failing party of their DRP preferences, resulting in an incorrect adjustment
- > There is a view that that claims volumes may increase with a movement to T+1.

Industry Proposed Solution

- > Separate the diary adjustment from the settlement instruction and schedule the diary adjustment on payment date
- > Use the actual dividend amount, not an estimate
- > Create a link between the trade and the diary adjustment, should the trade not settle - an adjustment can be made to reverse the diary adjustment
- > Automate the transfer of franking credits.

Business Benefits

- > Buyer receives the correct entitlement (either cash or stock)
- > Creates an equitable outcome where the buyer is not receiving an entitlement in advance before payment date
- > Value adjustment is not an estimate but an accurate amount
- > Minimise operational overhead in contacting the ASX to source franking credit statements
- > Efficiencies removing legacy and phone communication to raise, discuss, investigate and address claims.

Risk / Challenges

- > If pre-matching is adopted, there may be reluctance to match if the Participant is concerned the trade will not settle and they will lose the entitlement
- > Potential impacts from a T+1 future cycle
- > Consideration for potential ATO & ASIC requirements.

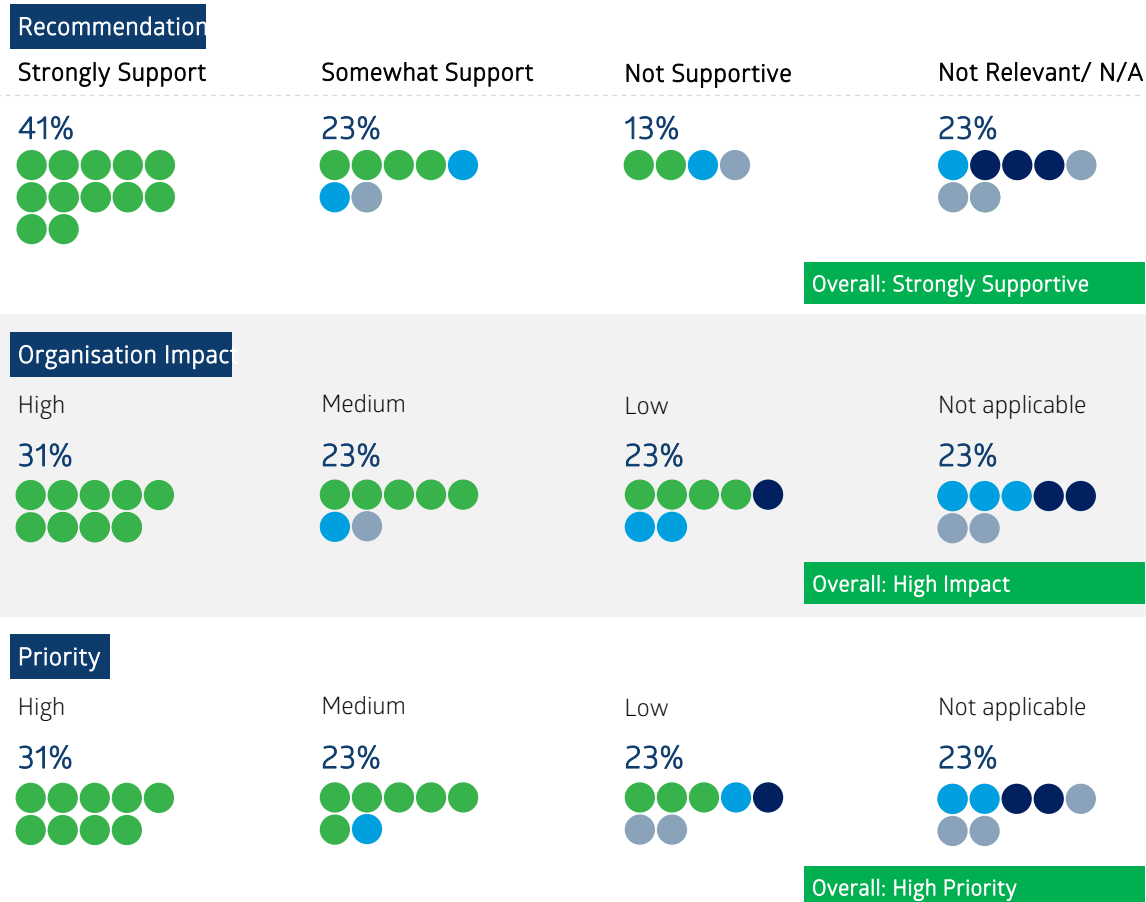
04 – Previous Survey Playback – Automated Market Claims

Electronic Dividend Claims

Scope Objective 3.1

Automated Market Claims

Review and enhance the current processes for automated claims (diary adjustments) to ensure it continues to meet the market needs.



Insights

C&S Participants

Participants who were strongly supportive indicated that the simplification of the claims process would minimise operational overhead and help to ensure the buyer receives the correct entitlement.

Some Participants that were somewhat or not supportive noted that the current process was sufficient, and that this was not a critical feature to be introduced for go live.

Software Providers

Some software providers were somewhat supportive of this feature, noting this may not be addressing the root cause such as potential enhancements to matching settlement instructions to reduce the need for such claims.

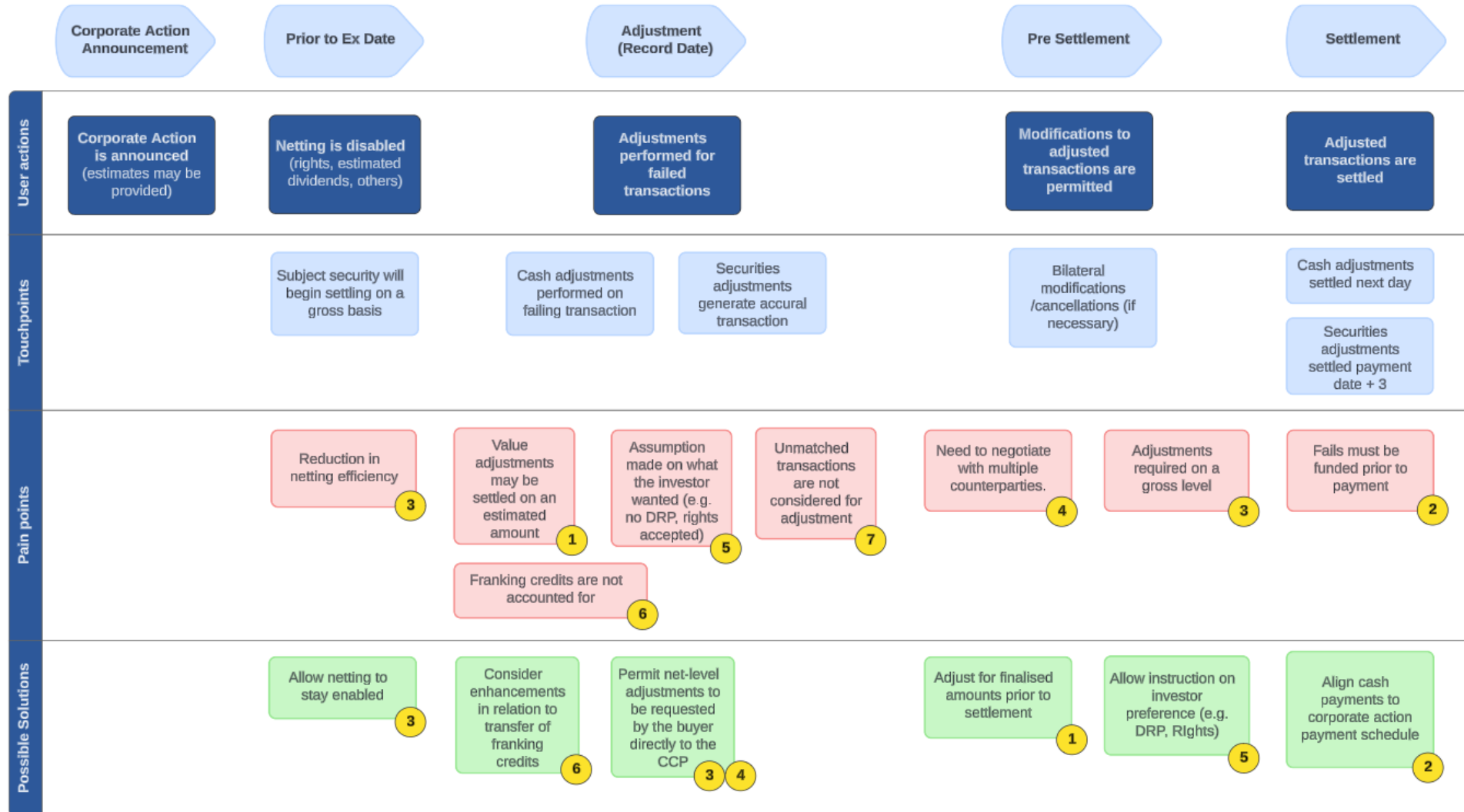
Share Registries

The majority of Share Registries indicated that this function is not a priority for the business, a few noting further elaboration is required.

04 – Currently Supported Automated Claims

Corporate Action Event	ISO event Type Code	Adjustment Type(s)	Netting Disabled on Parent Security	Deferred Security Code with Code Change Adjustment
Dividends, Interest Payment, Capital Return	DVCA, DVOP, DRIP, INTR, PRII, DECR	Value Adjustment – Cash Amount	Yes – if estimated, or shortened ex period	NA
Bonus Issue	BONU	Accrual Adjustment – Securities	Yes – if estimated	Yes – if ranks equally
Renounceable Rights (Entitlement)	RHTS	Accrual Adjustment – Securities	Yes	Yes – non-renounceable, ranking equally
Rights (Exercise)	RHTS	Value Adjustment with Code Change – Application Monies	Yes	Yes – if ranks equally
Attaching Options (Bonus, Rights)	AOPT	Accrual Adjustment – Securities	Yes	No
Call on Partly Paid	PPMT	Value Adjustment – Payment with Code Change	No	No
Split, Consolidation	SPLR, SPLF, EXWA	Reconstruction Adjustment – Cash & Securities	Yes – during deferred period	Yes
Company Options Expiry, Note Conversion, Warrant Rollover	EXWA, CONV	Code Change only	No	-
Name Change or Code Change	CHAN	Code Change only	No	-
Scheme / Merger	MRGR	None	No	-
Takeover & Buyback	TEND, BIDS	None	Yes – Off-Market Takeover/Buyback	-
Securities Purchase Plan, Priority Issue	PRIO	None	No	-

04 – Customer Journey & Pain Points



04 – Customer Pain Points

#	Issue	Impact	Proposal
1	Estimates are used instead of the finalised amount in some cases due to adjustment on record date	Buyer is not compensated for the correct amount and can be subject to risk. Final amounts must be processed manually	Separate claim transaction from parent transaction and schedule after corporate action is finalised
2	Value adjustments are performed on record date, prior to payment date	Seller must source funds prior to payment date to facilitate payment of the corporate action	Schedule claim transaction on or after payment date
3	Netting is disabled for tradable securities subject to some corporate actions	Reduction in netting efficiency, adjustments are required at a gross basis on multiple transactions	Perform adjustments at a net level and allow for net transactions to be separated out and adjusted on request
4	Participants must bilaterally negotiate a different outcome with a failing counterparty	Operational overhead, negotiation required with multiple counterparties in some cases	Allow buyer to unilaterally request for changes to adjustment (prior to a cutoff) – e.g. requesting cancellation of the transaction to lapse rights
5	Default options not considered (e.g. dividends always adjusted for cash, even if DRP is default)	Misalignment with typical expectation of Corporate Actions	Perform adjustments based on the default option of Corporate Action
6	Franking credits are not automatically transferred in the case of a fails	Manual processes are involved in the transfer of franking credits	Discussion point – slide 27
7	Claims are not generated for unmatched transactions	Participants impacted by a mismatch / non-match don't benefit from automated claims processing	Enhancements to settlement processes (e.g. pre-matching, hold/release) to encourage a higher matching rate

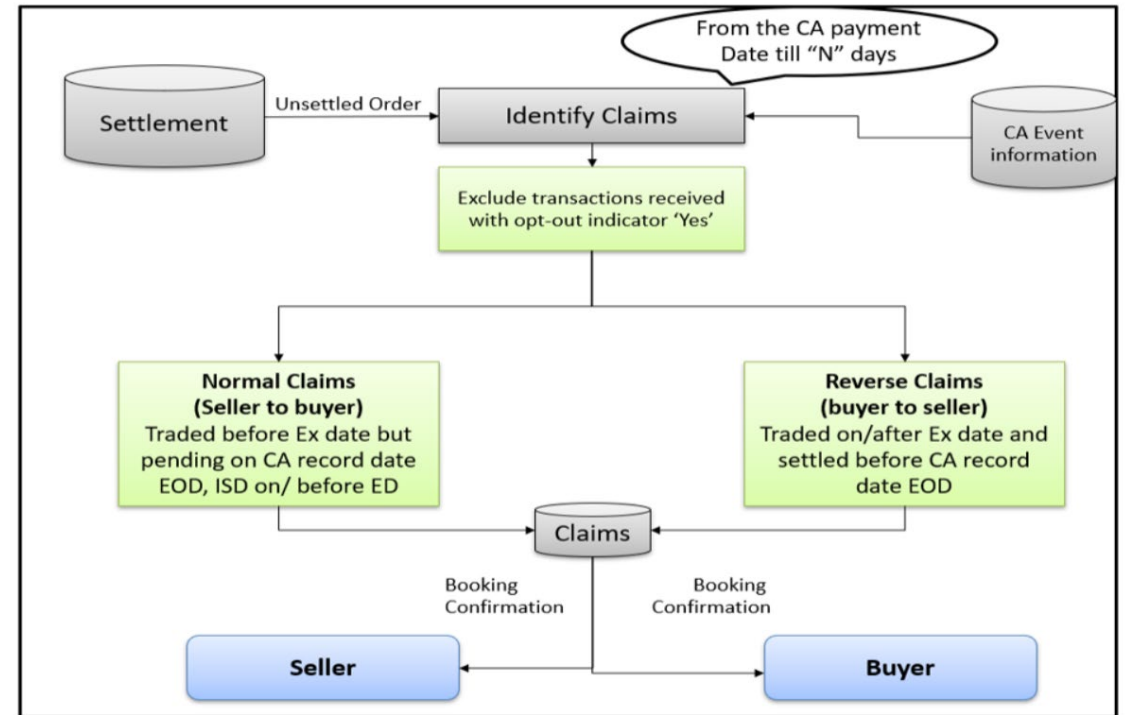


Are there additional issues or problems that have not been captured?

04 - TCS BaNCS MI Claims Functionality

Overview

- > TCS BaNCS MI supports the automated generation of claims transactions in both cash and securities for on-market and off-market transaction types, netted and non-netted
- > Claims transactions can be created as new obligations (similar to accruals) or by converting the unsettled transactions (similar to value/code change adjustments)
- > Claims transaction processing is linked with the execution of the Corporate Action (as typically used for a CSD). This process follows:
 - Transactions subject to claims are identified on record date
 - Claims transactions are generated on Payment Date, based on finalised (not estimated) Corporate Actions
 - Modification / cancellation of the claims transaction are permitted following generation.
- > To accommodate changes to netted transactions, TCS BaNCS MI also features an automated allocation process (similar to isolate counterparty). This allows a netted obligation to be broken down into bilateral transactions which can be amended or cancelled
- > Additionally, “reverse claims” are also supported to allow benefits to be transferred from the buyer to the seller in the case the buyer received an entitlement which should remain with the seller. This is used as an alternative to the Cum Entitlement Balance in some markets operating a CSD. Under the model in Australia, this would be subject to similar limitations as diary adjustments (e.g. transfer of franking credits).

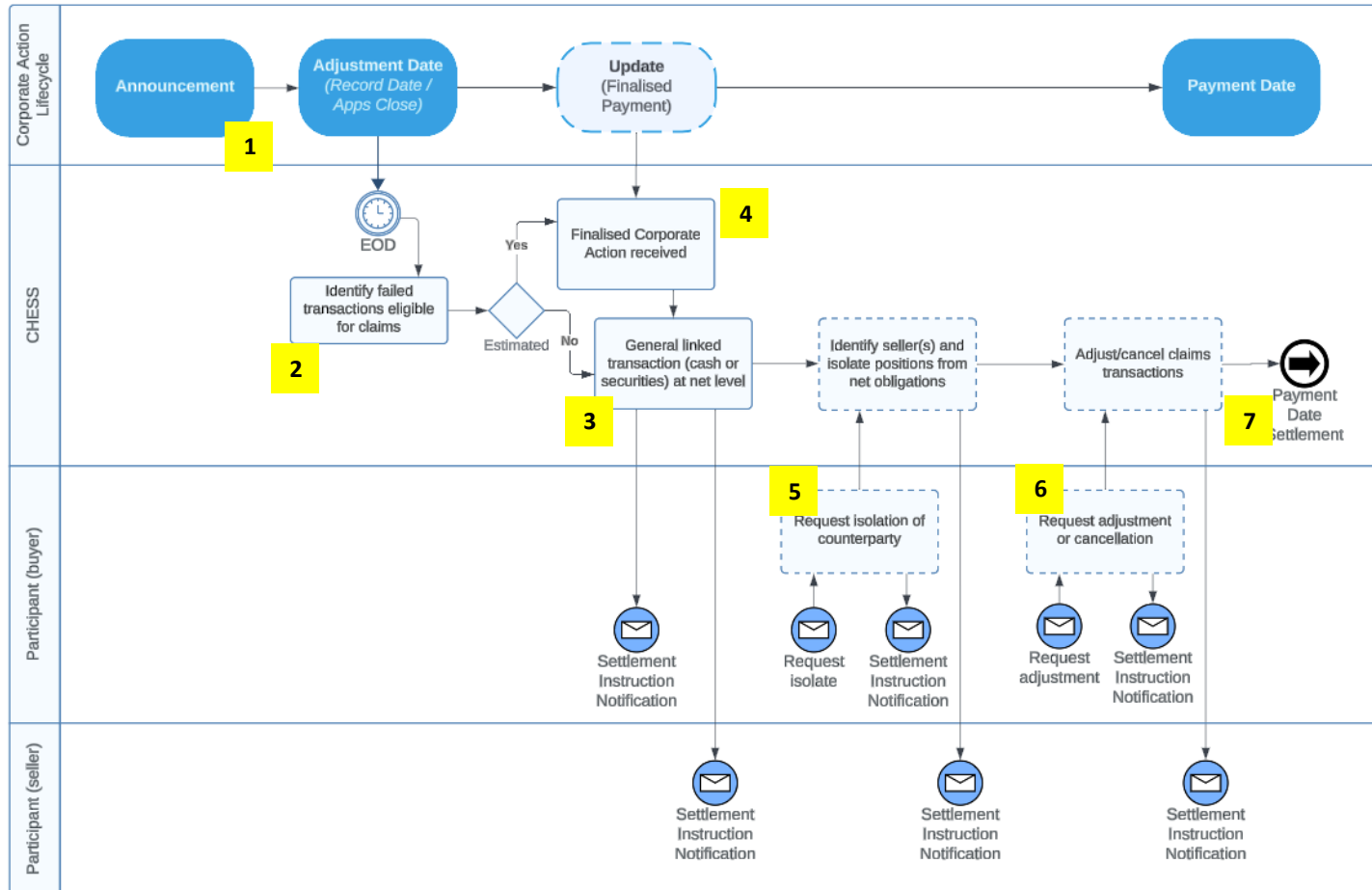


04 – TCS BaNCS MI - Example

The screenshot shows a web browser window titled "TCS BaNCS - Google Chrome". The address bar displays "10.23.118.60:7040/Bancs/login.do?method=Login&availHeight=632&availWidth=1280#". The page header includes a navigation menu with items like "Reference Data", "Clearing", "Depository", "System Services", "Favourites", and "Help". A user greeting "Welcome Ravi kalyan Kandula" and links for "Wizard", "Preferences", and "Logout" are visible. The main content area is titled "Claims" and contains a search form with fields for "Event Id" (2030119691), "Instrument Id" (ISIN), "Deliverer BP ID" (DFLT), "From Date", "Transaction Reference", "Transaction Type", "Event Type", "Receiver BP ID" (DFLT), "To Date", and "Status". A "Search" button and "Advanced Search" link are present. The text "Total No Of Records:3" is displayed. Below the search form is a table with the following data:

Event ID	Event Type	Option Number	Option Type	Transaction Type	Transaction Sub Type	ISO TransactionCode	Instrument ID	Currency	Claim Amount/Quantity	Claim Gene
2030119691	DVSE - Stock Dividend	1	Security(SECU)	Claims	For Distribution event - non Pledge (CLMS)		CAAZ1122WH13		6,000	2030-
2030119691	DVSE - Stock Dividend	1	Security(SECU)	Claims	For Distribution event - non Pledge (CLMS)		CAAZ1122WH13		5,850	2030-
2030119691	DVSE - Stock Dividend	1	Security(SECU)	Claims	For Distribution event - non Pledge (CLMS)		CAAZ1122WH13		5,850	2030-

04 – Proposed Future State - For Discussion



1. Corporate Action is announced (sometimes this includes an estimated payment amount)
2. At end of day on Record Date (or Applications Close) failed obligations subject to claims are identified
3. If a finalised amount is known, then adjustments on failed securities are performed, a linked settlement instruction is created and scheduled on / after Payment Date
4. For Corporate Actions where the finalised amount is not known, claims transactions are re-generated after Record Date (once amount is known)
5. In the case a non-standard outcome is desired (e.g. buybacks, schemes), the buyer can request isolation of a counterparty. CHES will automatically identify and isolate a seller
6. In the case a different consideration is required (e.g. lapsed rights) the buyer can request a different consideration / cancellation. CHES will automatically identify the seller and adjust
7. Transactions go through the settlement process where they can be subject to further fails and adjustments.

04 – Franking Credits – For Discussion

Overview

- > In the case of a failed transaction subject to a dividend with a franking component, the adjustment is performed on the **net dividend amount**, not taking into account any franking components or adjusted for withholding tax (overseas)
- > If a buyer wishes to claim a franking credit for a failed net obligation this can be requested via ASX Operations, who will identify a failing seller and co-ordinate the claims process:
 - In the case that the seller has a franking credit available to transfer they will fill in a franking credit transfer statement and pass this to the buyer
 - In the case that the seller does not have franking credit available (e.g. end investor is non-resident) then a cash compensation may be arranged.

Solution considerations

- > CHESSE would not have sufficient information to determine whether the buyer and/or seller is an Australian Resident and is eligible to transfer the credit
- > Calculation of any cash compensation for franking credits is dependent on an individual's tax situation and automatically calculating cash compensation may not meet the business need
- > Dividends could be adjusted on a gross rather than net basis, but this is likely to cause other issues
- > Manual adjustment of the claim transaction could be supported and / or scheduling of a linked PFoD transaction in the case that cash compensation is required.



Are there any technical solutions that could improve the current process?

Alternatively, is there non-CHESSE process automation that can be put in place to help make the process easier?

05

Next Steps

05 – Next Steps

Summary

- > ASX will create or update Business Design Document in relation to the discussion for your review
- > This will include information in relation to:
 - Cum Entitlement Balances
 - Automated Market Claims
 - Access channels (UI, ISO20022)
 - Any other considerations
 - Non-functional considerations

Preparation Steps to Complete

- > Review the draft Business Design Document and provide feedback to us within the required timeframe
- > We will be holding deep dives on ETF creation and redemption processes and usage of transaction basis in October/November
- > Please inform us of any changes to your nominated representatives to CHESSReplacement@asx.com.au
- > Please complete the feedback request that will be shared with you after this workshop.



Questions

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