



CHES replacement

Business Design Document

Corporate Actions: Elections and Payments

September 2024

DRAFT



Contacts

For general enquiries, please contact:

E CHESSReplacement@asx.com.au

Contents

Change Log	3
Overview	4
CHESS Replacement Background	4
Document Scope	5
Corporate Actions Background	5
1. Corporate Action Elections with Choice (without Payment)	6
2. Corporate Action Elections with Payment	8
3. Offer Administration Facility	12
4. Corporate Action Distribution Confirmations	13

Change Log

Version Date	Changes
6 September 2024	Draft version provided to BDWG members for review and comment

Overview

This Business Design Document is intended to complement and inform the corresponding proposals set out in the document titled 'Consultation on the Scope and Implementation of CHES replacement Release 2 (Settlement and Subregister)' ('**Consultation Paper 2**'), published on 2 August 2024. With a view to obtaining industry views on a range of additional scope items for CHES replacement, ASX established the [Business Design Working Group \(BDWG\)](#), which commenced in December 2023.

In a BDWG meeting held on 20 June 2024, the agenda was specifically focused on Corporate Actions Elections and Payments. This document provides an overview of the discussion points and industry design considerations for new or changed functionality relating to some Corporate Actions but does not represent an actual solution design. The industry design considerations set out in this document may provide context to proposals on the topic contained in Consultation Paper 2 and are subject to further analysis, consultation and change. We make no commitment to design the CHES replacement system in accordance with the information set out in this document.

CHES Replacement Background

ASX is committed to contributing to the modernisation of Australia's cash market through the CHES replacement project, to support the market's dynamic nature and respond to evolving needs for scalability, flexibility and innovation.

ASX has proposed that the CHES replacement system will be implemented in two releases:

- **Release 1** will replace the clearing component of CHES and introduce Financial Information eXchange (FIX) messaging for trade registration for all Approved Market Operators (AMOs). ASX on Release 1 and published its on 28 June 2024. ASX is targeting the implementation of Release 1 between mid-March to end-April 2026
- **Release 2** will replace the settlement and subregister functionality, deliver improved Corporate Action functionality and make further enhancements to clearing. Release 2 will also introduce global standard ISO 20022 messaging interfaces for Participants, Share Registries and Payment Providers.

This document relates to items proposed to be delivered in **Release 2**.

Document Scope

Industry has requested that ASX explore the ability for the CHES replacement system to facilitate further straight through processing of Corporate Action events between Participants and Share Registries. Feedback received to date indicates that such services would complement the role that ASX already plays in the Corporate Action ecosystem by providing standardised interfaces for Corporate Action events announced by listed or quoted Issuers in Australia (via ReferencePoint® services and market notices) and that it would supplement the current facility for the acceptance of takeovers and buybacks events.

Subject to market feedback, ASX may consider providing the technical capabilities for these additional Corporate Action services in Release 2 by leveraging existing capabilities of the TCS BaNCS MI product and adapting them for the Australian market.

ASX plans to engage industry further on the functionality, design and implementation timelines of the services outlined in this document. In particular, ASX plans to gain further clarity around anticipated market demand, as well as determining whether the functionality should be made operational with or subsequent to Release 2. Whether the services outlined in this document would be optional or mandatory, and the expected take-up by the market will be important in forming this view.

This document outlines the following key business and system processes relating to Corporate Action instructions for Release 2:

- Corporate Action elections with choice (e.g. dividend reinvestment plans (DRP), bonus share plans (BSP) and interest elections)
- Corporate Action elections with payment (e.g. rights issues, share purchase plans (SPP))
- Enhancements to the offer administration facility (takeovers, buybacks)
- Payment confirmations.

Corporate Actions Background

Currently, ASX provides structured electronic Corporate Action announcement services via the ReferencePoint® service. Additionally, CHES currently provides record date balance reporting, limited electronic acceptance of Corporate Actions and confirmations of unit allotment for CHES sponsored holdings only. Outside of CHES, Share Registries provide eligibility determination and offer documents, acceptance, payment and allocation of securities, cash payments and payment notices directly to Investors.

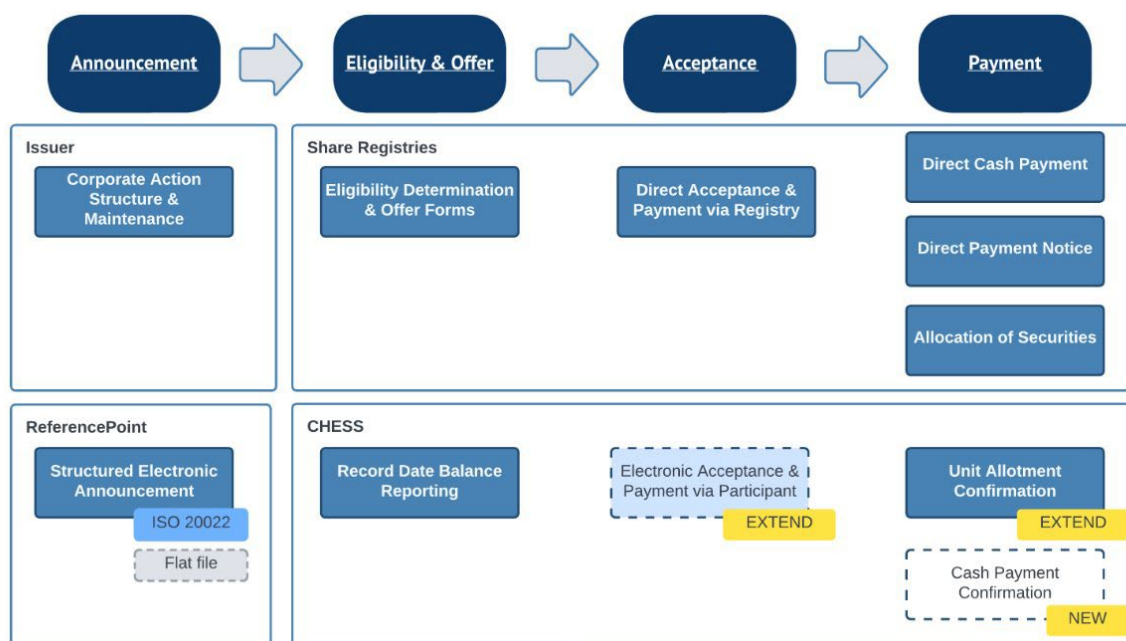


Diagram 0.1 - Portrays the current Corporate Actions ecosystem in Australia

1. Corporate Action Elections with Choice (without Payment)

To provide straight-through processing automation and benefits for industry, ASX proposes that the CHES replacement system allows the pass-through of elections (by Participants on behalf of holders) for all Corporate Action events with choice that are structured electronically and supported as part of the ReferencePoint® ISO 20022 service¹ (or equivalent non-ASX service if such a service arises). Corporate Action events with choice are those for which a holder has an option for which they can instruct, such as dividends with a reinvestment plan option. This currently excludes proxy voting and other Corporate Actions which are not sufficiently structured electronically, but could be expanded to these events in the future.

¹ Refer to <https://www.asx.com.au/connectivity-and-data/information-services/reference-data>.

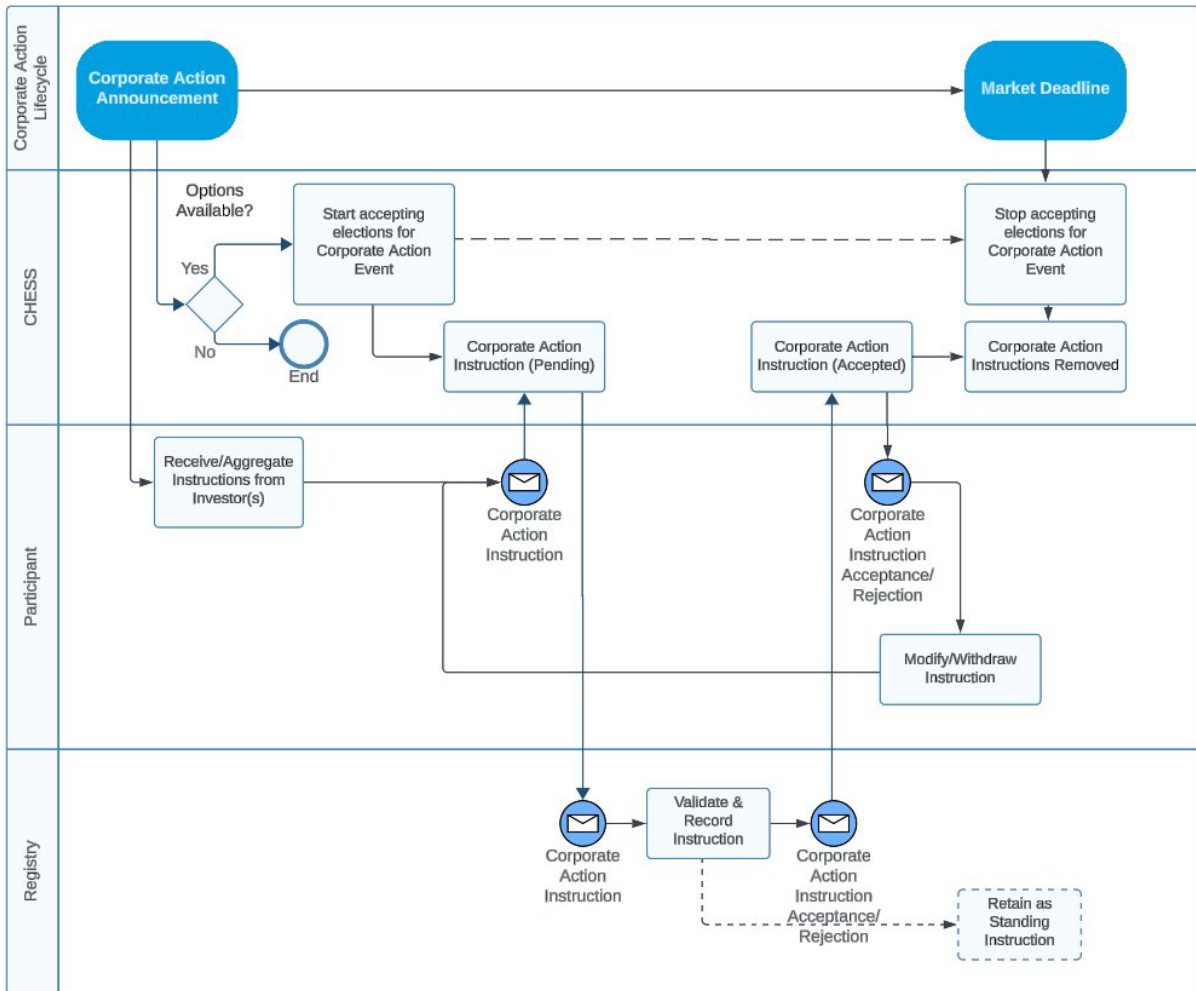


Diagram 1.1 – Proposed high level process for Corporate Actions with choice (without payment)

ASX is considering the following industry design considerations in relation to Corporate Actions with choice for Release 2 of the CHES replacement project.

ID	Industry design considerations	Scope
CA_1.1	The CHES replacement system should support a straight through process for option instructions to be submitted by a Participant and for option instructions requests to be accepted or rejected by the share registry on a per holding basis.	Release 2
CA_1.2	The solution should consider that acceptance or rejection may be based on preliminary acceptance/rejection process and not be fully validated by the Share Registry if the request does not meet plan rules.	Release 2
CA_1.3	<p>The CHES replacement system should support option instructions (without cash) for all applicable events currently structured in the ReferencePoint® ISO20022 signal, including:</p> <ul style="list-style-type: none"> • Dividends (DVCA – CashDividend, DVOP – DividendOption, DRIP – DividendReinvestment) • Interest Payments (INTR – InterestPayment, PRII - InterestPaymentWithPrincipal). 	Release 2
CA_1.4	<p>The CHES replacement system should support the ability to instruct against options contained within the Corporate Action Notification, and which would include:</p> <ul style="list-style-type: none"> • Full or partial acceptance of a DRP or BSP option (with a cash default) • Full or partial acceptance of a cash option (where DRP or BSP is the default) • Full or partial acceptance in an eligible foreign currency (where AUD cash or DRP is the default). 	Release 2
CA_1.5	The CHES replacement system should support the transmission of bank account details with a Corporate Action Option Instruction (where applicable), including foreign accounts where eligible and announced, including the option to retain bank account details as a default value.	Release 2
CA_1.6	The solution should consider that acceptances may be carried forward to subsequent Corporate Actions (as determined by the Issuer), including partial acceptances, which is managed outside CHES.	Outside CHES
CA_1.7	The CHES replacement system should support acceptances outside of the Corporate Action announcement period (submitted with a blank value in Corporate Action ID). Acceptances of which would need to be determined by the Issuer / Share Registry.	Release 2
CA_1.8	ASX should consider if the CHES replacement system should complete a balance check to validate the holding balance prior to sending an election to the Share Registry, noting this will require further discussion with the industry.	Release 2
CA_1.9	ASX should consider including the ability for Share Registries to provide updates to Participants if an Investor updates their election directly.	Post Release 2 consideration

2. Corporate Action Elections with Payment

For Corporate Action events requiring a payment from the holder to participate (e.g. share purchase plans), the election would need to be accompanied by a payment from the Participant to the Share Registry. To facilitate this in the CHES

replacement system, this would likely require a payment to be processed outside of batch, designed to be cost-effective and with minimal operational overhead.

The payment service would also need to support refunds in the same payment channel from the Share Registry to the Participant. However, distribution payments from Share Registries to holders (for example dividend payments) would not be planned to be supported in CHES replacement.

This process would follow a similar process to Corporate Actions with choice with enhancements to allow for the aggregation and facilitation of payments over multiple accounts.

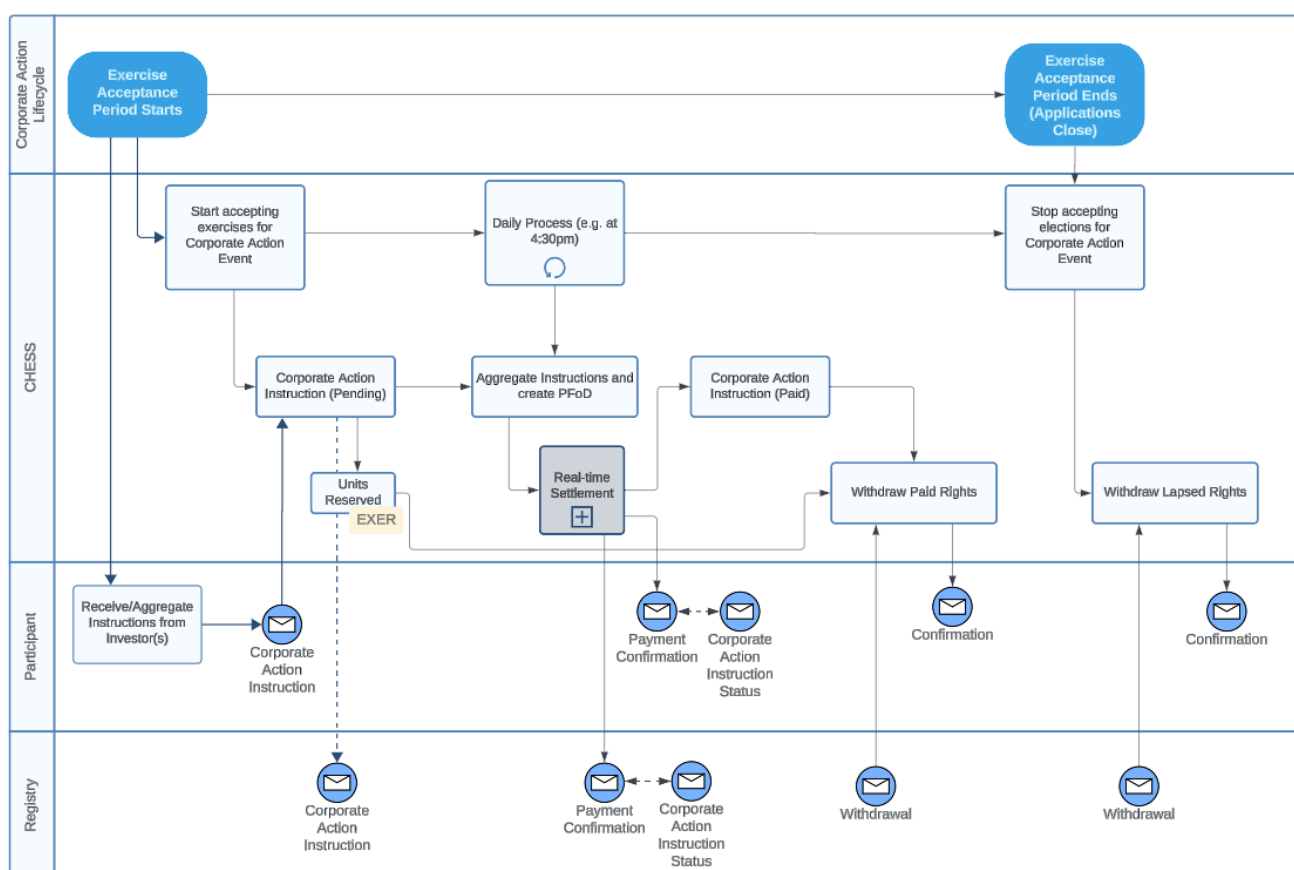


Diagram 2.1 – Proposed high level process for Corporate Actions with payment

ASX is considering the following industry design considerations in relation to Corporate Actions with payments for Release 2 of the CHES Replacement project.

ID	Industry design considerations	Scope
CA_2.1	<p>The CHES replacement system should support option instructions (with a cash payment) for all applicable events currently structured in the ReferencePoint® ISO20022 signal, such as:</p> <ul style="list-style-type: none"> • Rights Entitlement (RHTS) • Securities Payment Plan, Priority Issue (PRIO) • Call (PPMT) • Company Options Expiry (EXWA). 	Release 2
CA_2.2	<p>The CHES replacement system should support the acceptance of option instructions on a per account basis, or multiple instructions per account basis, with the ability to aggregate instructions into a single payment as part of a daily process.</p>	Release 2
CA_2.3	<p>The CHES replacement system should support notification to the share registry of elections with have been instructed, both prior to payment (pending) and post payment (paid).</p>	Release 2
CA_2.4	<p>The CHES replacement system should support notification to the share registry and Participant of a successful aggregate payment, with information that allows the payment to be linked to the individual instructions.</p>	
CA_2.5	<p>The CHES replacement system should support the ability to instruct for the exercise of a quantity of securities held in CHES (such as with renounceable rights issues).</p>	Release 2
CA_2.6	<p>The CHES replacement system should support the ability to instruct to participate in an event requiring a holding, but no specific allocation of a security (such as share purchase plans).</p>	Release 2
CA_2.7	<p>The CHES replacement system should support the ability to instruct to participate in an oversubscription (for example rights issues).</p>	Release 2
CA_2.8	<p>The CHES replacement system should support the ability to restrict holdings where the election is based on an allocated quantity of securities (e.g. rights) in relation to the specific instruction (as is the case currently for takeovers / buybacks).</p>	Release 2
CA_2.9	<p>Consideration should be given to whether the ability to process refunds for oversubscriptions or ineligible shareholders needs to be processed through CHES, or can be refunded directly.</p>	Release 2
CA_2.10	<p>The CHES replacement system should support the ability to accept instructions in fractions of cents and consider this in the aggregation and payment.</p>	Release 2
CA_2.11	<p>ASX and Share Registries should develop a process that considers the removal of rights accepted in CHES, rights accepted outside of CHES and the removal of lapsed rights that reduces the risk of multiple acceptances and transfer of accepted shares whilst minimising impact on existing Share Registry processes</p>	Release 2
CA_2.12	<p>The CHES replacement system should optionally support the ability to allow the transmission of beneficial owner information in the Corporate Action option</p>	Release 2

	instructions where required for omnibus accounts (for example with share purchase plans).	
CA_2.13	Consideration should be given to the current need to provide entitlement numbers in an acceptance and whether this is the most effective way to gain confirmation an investor has read and accepted the associated documentation.	Release 2
CA_2.14	The CHESS replacement system should facilitate payments in relation to Corporate Actions aggregated and settled as close to end of day as practical, giving consideration to offer close dates & times.	Release 2
CA_2.15	Consideration should be given to the most appropriate payment channel for such Corporate Action payments, including whether this requires the maintenance of payment facilities and/or other bank account information in the CHESS system.	Release 2
CA_2.17	Consideration should be given to the setup process, ensuring it is as automated as is practical, is mindful of confidentiality concerns and allows for set up within a short timeframe.	Release 2
CA_2.18	Consideration should be given to payment processing allow for a Share Registry to segregate funds on an individual Corporate Action basis.	Release 2

3. Offer Administration Facility

CHESS currently supports elections by Participants on behalf of holders for takeovers, buybacks and other Corporate Action events (such as reinvestment offers).

ASX is considering the following industry design considerations to enhance this functionality in relation to Release 2 of the CHESS replacement project.

ID	Industry design considerations	Scope
CA_3.1	The CHESS replacement system should support the ability to transmit bank account details (or equivalent) as part of the acceptance message, where the Corporate Action event has a cash payment. If a bank account is associated with the HIN, this can be pre-populated.	Release 2 & consideration for current CHESS
CA_3.2	The CHESS replacement system should support the ability to allow acceptances against ISO-standardised option codes, as communicated in the ReferencePoint® ISO 20022 Corporate Action messages. This information will also continue to be communicated via ASX market notices (as it is today).	Release 2
CA_3.3	The CHESS replacement system should support the ability to automate the processing of finalising takeovers and buybacks, currently undertaken manually by ASX Operations under instruction from the bid offeror. This could be replaced with an electronic process allowing for this to be managed by the bid offeror directly, noting this will require further discussion with the industry.	Release 2
CA_3.4	ASX should consider further discussion and alignment with the industry in relation to timing cut-offs for the acceptance of Corporate Action instructions and scheduled operating hours for CHESS.	Release 2

4. Corporate Action Distribution Confirmations

ASX proposes to facilitate transmission of additional distribution information in relation to Corporate Actions from Share Registries to eligible holders in a standardised electronic format within the CHES replacement system. This functionality may be delivered as an optional enhancement to the existing workflows that are used to debit and credit units from accounts and made available as an optional pass-through for those Corporate Actions paying cash considerations. Further consideration will be required regarding usage of the service and provision of information from Share Registries.

The transfer of cash in relation to these Corporate Actions would continue to be paid directly from Issuers (or their Share Registries) to eligible holders, outside of CHES. However, it was noted that there could be benefits to Participants receiving payments in relation to non-sponsored accounts via CHES in the future.

This proposed functionality would provide the ability for:

- Participants to automate workflows where they are responsible for notifying the beneficial owner in relation to Corporate Action information (i.e. for omnibus holdings)
- Provision of additional information by retail brokers, allowing them to provide their sponsored holders with richer Corporate Action information in relation to changes to their holdings.

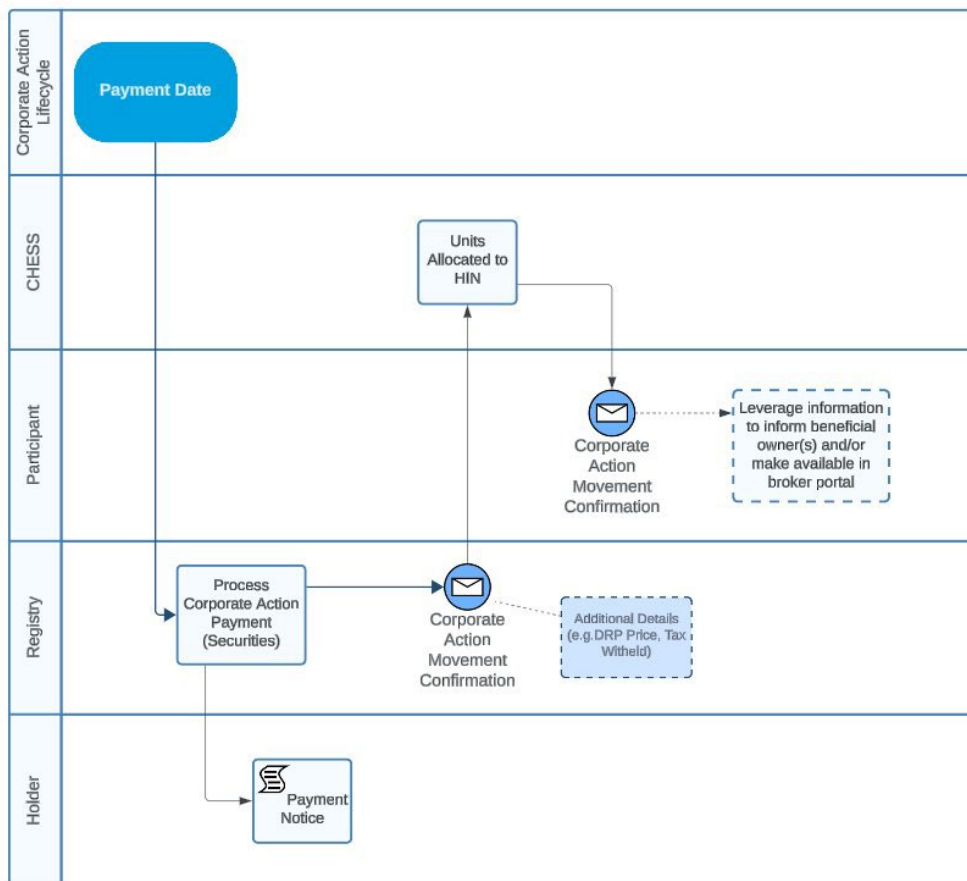


Diagram 3.1 – Proposed high level process for Corporate Action securities movements

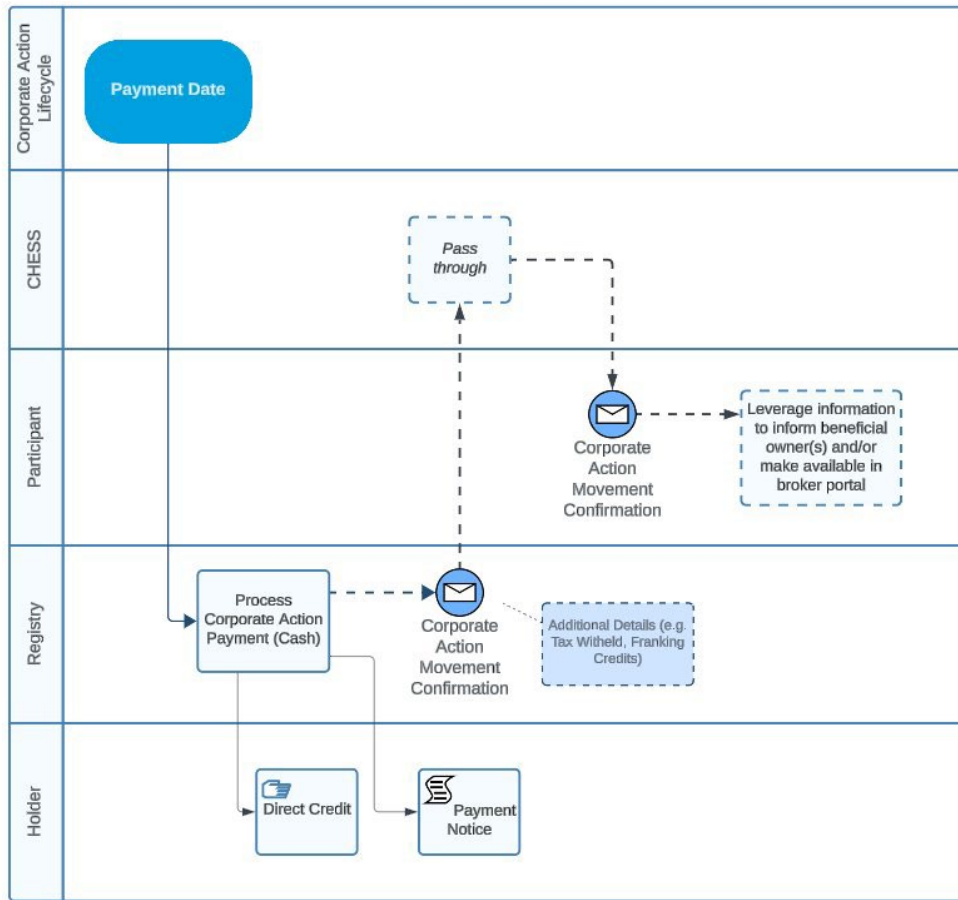


Diagram 3.2 – Proposed high level process for Corporate Action cash payments

ASX is considering the following industry design considerations to payment confirmations in relation to Release 2 of the CHES replacement project.

ID	Industry design considerations	Scope
CA_4.1	<p>The CHES replacement system should optionally support the ability for the transmission of additional information in the securities movements initiated by a Share Registry (replacing the current “Holding Adjustment” and “Securities Transformation” workflows), such as:</p> <ul style="list-style-type: none"> • Corporate Action identifier & option (as applicable) • Securities Movements • Tax Withholding • Franking/Imputation credits • Units price • Carry forward funds. 	Release 2
CA_4.2	<p>The CHES replacement system should optionally support the ability for the transmission of a confirmation of cash payment made by a Share Registry outside of CHES, including:</p>	Release 2

-
- Corporate Action identifier & option (as applicable)
 - Cash Payment Amount and Currency
 - Tax Withholding
 - Franking/Imputation credit
 - Other information as applicable.

CA_4.3	ASX should consider the solution may only be taken up by a subset of Participants, and a subset of accounts maintained by those Participants. Further discussion will be needed in relation to differentiating subscribers, partial payments, and the timing of roll out to certain user groups.	Release 2
CA_4.4	ASX should consider whether some Corporate Action payments could be made directly from Share Registry to Participant via CHES in the future.	Post Release 2 consideration
