



# CHES replacement

## Business Design Document

### Cum Entitlement Balances & Market Claims

October 2024

DRAFT



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## Change Log

Version Date	Changes
28 October 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.

ASX held two BDWG meetings on 22 August 2024 and 17 September 2024 where the agenda was specifically focused on Cum Entitlement Balances and Market Claims. This document provides an overview of the discussion points and industry design considerations for new or changed functionality relating to cum entitlement balances and market claims 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 consulted on Release 1 and published its response to consultation 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

Cum Entitlement Balance (CEB) is a unique feature of the Australian market that was introduced when settlement periods were significantly longer than the current T+2 settlement regime. In an effort to simplify this feature and minimise build and test complexity for ASX and the industry, ASX presented an alternative proposal for handling entitlements and the calculation of eligible balances in multiple BDWGs. During these sessions, industry feedback received in relation to proposed new CEB workflows presented was that the potential impacts to Share Registries and Participants were significant, and the proposed solution would not meet the requirements for complex use cases in the securities lending market and the need to retrieve intra-day balances. After several extensive industry workshops and bilateral sessions with a number of Participants, it was evident that in order to retain high value business functionality and minimise industry impact, the materialisation of cum entitlement balances would be required for Release 2 of CHES replacement. This will be supported by targeted simplifications that aim to reduce the build and testing complexity for the industry.

As a result of industry feedback, ASX has developed a solution to leverage existing capabilities of the TCS BaNCS MI product to support the materialisation of cum entitlement balances that will be incorporated as an extension to the core solution and stored as an additional balance against a security holding.

This document outlines the following key business and system processes relating to cum entitlement balances and market claims for Release 2:

- Cum entitlement balances
- Basis of movement simplification
- Market claims (diary adjustments).

Whilst market Participants requested evaluation of the ability to transfer an entitlement separately to the securities holding, it was determined through the working group not to progress with this functionality for CHES replacement Release 2. 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.

Similarly, whilst market Participants requested the ability to automate the transfer of franking credits in relation to a failed transaction, no solution was readily apparent in the working groups and as such, the requirement is also not expected to progress as part of CHES replacement Release 2.

## 1. Cum Entitlement Balances

ASX intends to continue to generate a materialised cum entitlement balance but continue to pursue simplification, based on industry feedback received regarding minimising the impact on existing business processes.

A materialised CEB will be generated overnight prior to ex date and finalised on record date. CEBs will be stored as an additional balance against the security holding, rather than a separate instrument. This materialised CEB will enable intra-day reporting of CEB and the complex ex/cum scenarios identified through market feedback (including the ability to move an unattached entitlement via ex/cum transfers).

ISO 20022 provides a full suite of corporate action messages that support the full corporate action lifecycle. Alignment to standardised messaging for entitlement balances will be evaluated with the market via the ISO Design Working Group. This will include whether the **seev.035** ('CorporateActionMovementPreliminaryAdvice') is a more appropriate message for CEB reporting.

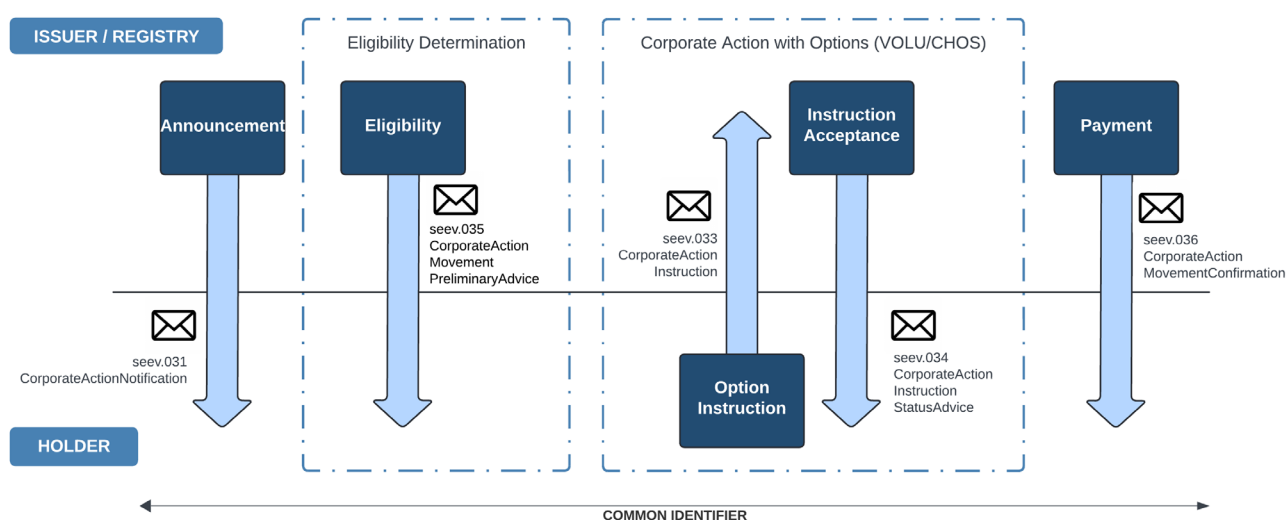


Diagram 1.0 - Portrays the ISO messages used for corporate actions processes globally

ASX is considering the following industry design considerations in relation to cum entitlement balances transactions for Release 2 of the CHES replacement project.

ID	Industry design considerations	Scope
CEB_1.1	The CHES replacement system should support the materialisation of a CEB equal to the holding balance of the security code, generated overnight prior to ex-date and finalised on record date.	Release 2
CEB_1.2	The CHES replacement system should enable intra-day and scheduled reporting of CEB reporting to allow for the balances and movements to be retrieved at any time during, or immediately after, the ex-period.	Release 2
CEB_1.3	The CHES replacement system should support access to real time balances for any materialised CEB on the UI and/or API.	Release 2

CEB_1.4	The CHES replacement system should support historical reporting of CEBs for a defined period of days after the record date.	Release 2
CEB_1.5	The solution should consider and support the complex ex/cum scenarios identified by the market for securities lending and custodial use cases. This includes the ability to move an unattached entitlement via ex/cum transfers within a specified timeframe.	Release 2
CEB_1.6	The CHES replacement system should reset the CEB to zero after a defined period of days after the record date.	Release 2
CEB_1.7	<p>The CHES replacement system should support the ability to facilitate a transfer on an ex basis for the following use cases (or the equivalent ISO message):</p> <ul style="list-style-type: none"> <li>• 001 – Demand Single Entry CHES to CHES Transfer</li> <li>• 003 – Transferor Submitted Demand Transfer</li> <li>• 005 – Demand Dual Entry CHES to CHES Transfer</li> <li>• 007 – Demand CHES to Issuer Sponsored Transfer</li> <li>• 011 – CHES to Issuer Sponsored Conversion</li> <li>• 015 – Issuer Sponsored to CHES Transfer</li> <li>• 017 – Issuer Sponsored to CHES Conversion</li> <li>• 101 – Dual Entry Settlement Notification</li> <li>• 105 – Single Entry Settlement CHES to CHES Transfer</li> <li>• 107 – Scheduled Settlement CHES to CHES Transfer</li> <li>• 421 – Securities Transformation</li> <li>• 425 – Holding Adjustment</li> <li>• 431 – Takeover Transfer</li> </ul>	Release 2
CEB_1.8	<p>The CHES replacement system should not support the ability to facilitate a transfer on an ex basis for the following use cases:</p> <ul style="list-style-type: none"> <li>• Gross Market Trades</li> <li>• Net Broker Obligations.</li> </ul>	Release 2
CEB_1.9	The solution should consider aligning to standard ISO messaging for CEBs where possible. This includes reviewing the use of the <b>seev.035</b> ('CorporateActionMovementPreliminaryAdvice') message for reporting purposes.	Release 2

## 2. Basis of Movement Simplification

The current functionality in CHES allows for the movement of securities on a 'cum' or 'ex' basis, i.e. with or without the entitlement for up to 18 different types of corporate actions for up to 5 concurrent corporate action events. To support this functionality, CHES is currently required to maintain up to 5 separate balances per security and maintain complex basis of movement values and defaulting rules across all transactions in CHES and CHES Users' systems. Whilst historically this functionality has been useful, data analysis has shown the number of concurrent corporate actions (i.e. corporate actions with overlapping ex periods) to be limited to no more than two, and little to no use of mixed ex/cum basis of movements on transactions. The targeted basis of movement simplifications proposed in the working group garnered broad consensus from the industry.

As a result, ASX is considering the following industry design considerations in relation to Basis of Movement simplification for Release 2 of the CHES replacement project.

ID	Industry design considerations	Scope
BOM_2.1	The CHES replacement system should only support a single cum entitlement balance per security at any point in time. Concurrent corporate actions should be supported by single cum entitlement balance which is applicable to all concurrent corporate actions.	Release 2
BOM_2.2	<p>The CHES replacement system should support one basis of movement applicable to all concurrent corporate actions. The valid basis of movement values will be:</p> <ul style="list-style-type: none"> <li>• CUM – The transfer is 'cum' for all concurrent corporate actions</li> <li>• EX – The transfer is 'ex' for all concurrent corporate actions</li> </ul> <p>Replacing the existing override basis of movement values:</p> <ul style="list-style-type: none"> <li>• CD – Cum Dividend</li> <li>• XD – Ex Dividend</li> <li>• CR – Cum Rights Issue</li> <li>• XR – Ex Rights Issue</li> <li>• CB – Cum Bonus Issue</li> <li>• XB – Ex Bonus Issue</li> <li>• CE – Cum Entitlement</li> <li>• XE – Ex Entitlement</li> <li>• CC – Cum Capital return</li> <li>• XC – Ex Capital return</li> <li>• CM – Cum Premium return</li> <li>• XM – Ex Premium return</li> <li>• CI – Cum Interest</li> <li>• XI – Ex Interest</li> <li>• CQ – Cum Equal Access Buyback</li> <li>• XQ – Ex Equal Access Buyback</li> <li>• CZ – Cum Non Pro Rata Balance</li> </ul>	Release 2
BOM_2.3	The CHES replacement system should default all transactions to cum, with ex transactions will be entered by Participants and Share Registries by exception.	Release 2
BOM_2.4	The CHES replacement system will not support different types of defaulting rules for specific transaction types or configurations.	Release 2



BOM\_2.5 The CHES replacement system will not support the following XZ – Ex Non Pro Rata Balance. Release 2

BOM\_2.6 The CHES replacement system should only support market obligations (trades and netted obligations) as cum transactions. Basis of movement will not be a netting criteria and ex basis movements are not supported in batch for market obligations. Release 2

### 3. Market Claims

It is intended that the CHES replacement system will enhance the existing claims and adjustments process (currently referred to as ‘diary adjustments’) to resolve existing issues and better align with global market practices by leveraging the following aspects of the TCS BaNCS MI product:

- Where applicable, separation of the claim transaction from the failed transaction, allowing the claim to be scheduled in line with the payment date of the corporate action and reducing the need for the claim to be funded prior to corporate action payment date
- Ensuring claims are based on the finalised payment amount, rather than using an estimated value as is currently necessary in some cases. This reduces exposure to foreign exchange fluctuations
- Align the generation of market claims to the default outcomes of the corporate action, and evaluate whether a mechanism can be provided for a buyer to request a different outcome
- Remove or reduce the need to disable netting for certain securities undergoing a corporate action and for Participants to need to negotiate outcomes bilaterally with multiple counterparties.

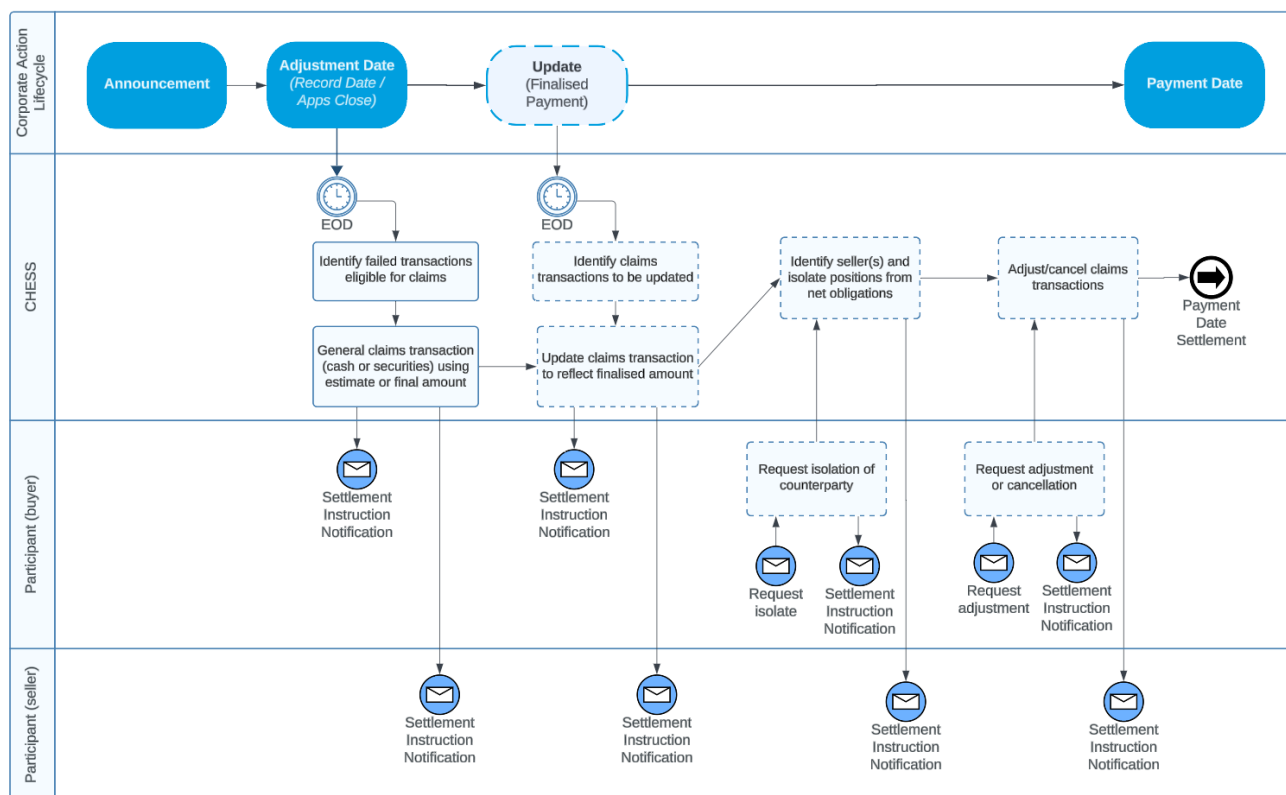


Diagram 2.0 - Portrays the proposed process for Market Claims

ASX is considering the following industry design considerations in relation to Market Claims (Diary Adjustments) for Release 2 of the CHES replacement project.

ID	Industry design considerations	Scope
MC_3.1	The CHES replacement system should continue to support the automatic generation of claims transactions in both cash and securities for on market, off market, netted and non-netted transaction types and excluding any unmatched transactions.	Release 2
MC_3.2	The CHES replacement system should continue to generate claims transactions based on an estimated value where the final amount is not known by Record Date.	Release 2
MC_3.3	The CHES replacement system should generate claims transactions as separate linked transactions for value adjustments (e.g. dividends) and these should be scheduled on or after the payment date of the corporate action.	Release 2
MC_3.4	The CHES replacement system should update/replace a claims transaction generated using an estimated amount following notification of the finalised amount for a corporate action.	Release 2
MC_3.5	The CHES replacement system should allow Participants to agree to modify and/or cancel claims transactions following generation.	Release 2
MC_3.6	The CHES replacement system should support an automated allocation process that allows a netted obligation to be broken down to bilateral transactions which can be amended or cancelled.	Release 2
MC_3.7	The solution should consider the ability to align to the default consideration for a corporate action (e.g. cash or DRP).	Release 2
MC_3.8	The CHES replacement system should ensure the claims transactions are linked to the originating transaction and carry across sufficient details to enable the Participant to identify the appropriate client.	Release 2
MC_3.9	Where possible, ASX should continue to work with the industry to consider improvements to process for transferring a franking credit for a failed net obligation.	Outside of CHES
MC_3.10	ASX should continue to work with the industry to identify if there are use cases requiring the generation of a claims transaction for transactions that did not fail settlement, or are agreed after Record Date, such as those entered on Record Date but failing to match.	Post Release 2 Consideration