

## Consultation on the Scope and Implementation of CHES replacement Release 2 (Settlement and Subregister)

Reference	Question	Response (please enter your input in column D)	Guidance notes to complete column D
<b>Respondent Details</b>	Would you like your response to be confidential?	No	Select the applicable response from the drop down
	Name	Jack Morgan	First Name & Last name
	Email		Email
	Organisation	Financial Services Council	Organisation Name
<b>Organisation Cohort</b>	Please select your organisation type (select all that apply). - See choices in column E		election option: AMO
			election option: Clearing and Settlement Participant
			election option: Settlement-only Participant
			election option: Payment Provider
			election option: Share Registry
	Industry Association	election option: Software Provider	
		election option: Industry Association	
		election option: Other (Please specify below)	
	If you answered - Other above please specify		Please complete if you answered 'Other' above (free text)
<b>Q1</b>	Please provide any feedback on the proposed design, scope and schedule for Release 2.	<p>We commend the ASX for its comprehensive approach to the design, scope, and schedule for Release 2 of the CHES replacement system. However, we believe there are critical areas that require further attention to ensure the system meets the needs of all market participants, particularly ETF issuers.</p> <p>(1) Accelerated Implementation of T+1 Settlement (see Q4 and Q19.1): We strongly advocate for the implementation of the T+1 settlement cycle prior to 2030. Our ETF issuer members strongly recommend either bringing forward T+1 settlement ahead of Release 2 or dividing Release 2 half: with the settlement phase occurring first, followed by T+1 settlement and then followed by the subregister changes.</p> <p>The transition to T+1 is essential for enhancing market efficiency, reducing counterparty risk, and aligning with global best practices. Markets such as the US have already transitioned to T+1, and delaying this transition places Australian markets at a competitive disadvantage. We urge the ASX to expedite the necessary preparations to facilitate an earlier commencement of T+1 settlement.</p> <p>(2) Cut-off Time for T+2 Settlement (see Q4): If the T+1 settlement cycle cannot commence at an earlier date, it is not sustainable for the current 11:30am cut-off time to be retained until the 2030s. This cut-off time imposes significant operational challenges and constraints on ETF issuers, and creates a risk of failed settlements, creations and redemptions. We have previously advocated several modest changes which would significantly mitigate these risks which we outline in further detail under Q4.</p> <p>(3) Expansion of Subregister Functionality (see Q18): We support the expansion of the subregister's functionality to include additional information. Enhanced functionality will improve transparency, data accuracy, and market efficiency. However, for these benefits to be realised, it is essential to ensure this information is made available to share registries and ETF issuers. We therefore advocate either making it compulsory for market participants such as brokers to provide this information to the ASX or creating incentives for them to do so.</p> <p>(4) Further Upgrades to Subregister Functionality (see Q18): While we acknowledge the proposed enhancements to the subregister, we believe there is additional room for improvement. Upgrading the subregister's functionality to support more sophisticated data analytics, real-time updates, and better integration with other market systems will significantly benefit market participants.</p>	Free text
<b>Q2</b>	Please provide any feedback on the proposed testing and industry readiness approach for Release 2.		Free text
<b>Q3</b>	Please provide any feedback on the proposed approach to interoperability for CHES replacement.	<p>We support the proposed approach to settlement interoperability for the CHES replacement. Interoperability is crucial for improving market efficiency, ensuring backup systems are in place, and facilitating seamless integration with other market systems. The following points highlight our position:</p> <p>(1) Market Efficiency: Interoperability will enhance market efficiency by enabling seamless data exchange and reducing operational redundancies. This will lead to faster transaction processing and improved liquidity.</p> <p>(2) Backup Systems: Ensuring interoperability with backup systems is essential for maintaining market stability and resilience. In the event of a system failure, interoperable backup systems can ensure continuity of operations, minimise disruptions and ensure institutional investors are not exposed to the risks of non-execution. This is in line with ASIC's recommendations in ASIC Report 708 'ASIC's expectations for industry in responding to a market outage' (November 2021).</p> <p>(3) Global Standards: Adopting global standards for interoperability will align the Australian market with international best practices, making it more attractive to global investors. This alignment will also facilitate cross-border transactions and enhance the competitiveness of the Australian market.</p>	Free text
<b>Q4</b>	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).	<p>We believe that the transition to a T+1 settlement cycle should occur earlier than presently scheduled. The benefits of moving to T+1 include reduced counterparty risk, improved liquidity, and alignment with international markets. The primary risk involves operational readiness, but this can be mitigated through robust testing and phased implementation. The earlier transition will also necessitate adjustments in back-office processes, which can be managed with adequate training and support.</p> <p>Presently with the 11:30AM constraint, creations of ETFs that have underlying exposure to US securities need to be settled on an estimate with a 'true up' subsequently applied. This is due to the constrained timeframe for calculating the NAV price and the settlement amount for the ETF after the close of the US market in the Australian morning of T+1. This means an increased risk of failed settlement. Similar problems also exist for the creation and redemption of ETF units and will be exacerbated once further jurisdictions such as Europe move to T+1.</p> <p>The FSC has previously submitted that the above risks could be mitigated by the ASX if the ASX:</p> <p>a) Offered real time matching through the settlement day; or b) Provided additional batch settlement points, eg at 13:30 and 16:30.</p> <p>The current 11:30AM CHES settlement cut off means there is a compressed settlement period. Feedback from member ETF issuers is that it is operationally challenging to undertake the required steps to achieve settlement matching by 11:30AM in order to get valuations done in only a few hours after the US market closes or settlement on an estimated valuation. There is a concern that there will be an increased risk of settlement failures for investors (as the market maker will not have the shares to deliver), and increased costs for market makers that ultimately feed through into spreads and total cost of ownership.</p> <p>Therefore, for an Australian listed ETF with exposure to the US market, primary market creation units need to be settled on a T+1 basis in order to settle the US securities. Issuers may need to consider arranging internal funding facilities to have money available to fund the purchase of US stocks prior to receiving the proceeds from the ETF unit application or settling the ETF using an estimate NAV. Both of these options reduce the market efficiency and increase costs that ultimately need to be passed on to end investors by via a management fee or increased spread. This situation will deteriorate further as more jurisdictions adopt T+1 settlement.</p> <p>Moving the settlement cut off from 11:30am to later in the day would provide Australian ETF issuers and their 3rd party administrators with more time to value the ETF, calculate the settlement amounts and settle on a T+1 basis. It also would reduce the risk of settlement failures. For ETF issuers, remaining on T+2 for a prolonged period will necessitate continued portfolio management adjustments to account for non-standard settlement times across jurisdictions.</p>	Free text
<b>Q5</b>	Does your organisation support the scope of the clearing upgrades for CHES replacement Release 2? Please provide context to your response above		Select the applicable response from the drop down  Free text
<b>Q6.1</b>	Would your organisation use an optional segregated account structure if offered by the CHES replacement system?		Select the applicable response from the drop down
<b>Q6.2</b>	If you answered yes or possibly to Q6.1, which account structure would suit your organisation best? If you answered - Other above please specify		Select the applicable response from the drop down  Please complete if you answered 'Other' for question 6.2 in cell D25 (free text in cell D26)
	Please provide context to your response above		Free text for question 6.2

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Q6.3	Please provide any further information about the proposed optional segregation models.		Free text
Q7	Does your organisation support the proposed scope of settlement for CHES replacement Release 2?		select the applicable response from the drop down
	Please provide context to your response above		Free text
Q8	Does your organisation support simplifying the processing of 'ex transactions' (i.e. Cum Entitlement Balances)?		select the applicable response from the drop down
	Please provide context to your response above		Free text
Q9	Does your organisation support the proposed scope of subregister and issuer sponsored processes for Release 2?		select the applicable response from the drop down
	Please provide context to your response above		Free text
Q10	Does your organisation support the proposal to enhance registration details and allow for the sharing of additional investor information?		select the applicable response from the drop down
	Please provide context to your response above		Free text

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Reference	Question	Response (please enter your input in column D)	Guidance notes to complete column D
Q11	What additional investor information would your organisation find useful to be transmitted via CHES? - See choices on column E (and select all that apply, via separate rows in column D)		<b>election option:</b> Tax File Numbers (TFNs), Australian Business Numbers (ABNs) and Australian Company Numbers (ACNs)
			<b>election option:</b> Foreign Account Tax Compliance Act (FATCA) / Common Reporting Standard (CRS) details such as tax residency and foreign tax identification number(s)
			<b>election option:</b> Bank account details
			<b>election option:</b> Mobile numbers
			<b>election option:</b> Other (Please specify)
	If you answered - Other above please specify		Please complete if you answered 'Other' for question 11 (free text for cell D42)
	Please provide context to your response above		Free text
Q12.1	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?		select the applicable response from the drop down
	Please provide context to your response above		Free text
Q12.2	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?		select the applicable response from the drop down
	Please provide context to your response above		Free text
Q13	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?		select the applicable response from the drop down
	Please provide context to your response above		Free text
Q14	Does your organisation support the proposed connectivity and interface options in CHES replacement Release 2?		select the applicable response from the drop down
	Please provide context to your response above		Free text
Q15.1	Would your organisation be interested in using an optional data API if offered by the CHES replacement system as part of Release 2?		select the applicable response from the drop down
	Please provide context to your response above		Free text
Q15.2	If you responded yes or possibly to Q15.1, what would your organisation use the data API for?		<b>election option:</b> Holding Balances
			<b>election option:</b> Other (Please specify below)
	If you answered - Other above please specify		Please complete if you answered 'Other' for question 15.2
	Please provide context to your response above		Free text
Q16	Given the other strong security controls, do you support ASX's proposal not to use ISO 20022 message signing of both input and output?		select the applicable response from the drop down
	Please provide context to your response above		
Q17	Which (if any) months should be avoided for CHES replacement Release 2 go-live? - See choices on column E		<b>election option:</b> January
			<b>election option:</b> February
			<b>election option:</b> March
			<b>election option:</b> April
			<b>election option:</b> May
			<b>election option:</b> June
			<b>election option:</b> July
			<b>election option:</b> August
			<b>election option:</b> September
			<b>election option:</b> October
			<b>election option:</b> November
			<b>election option:</b> December
			Please provide supporting detail for each month that should be avoided

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Reference	Question	Response (please enter your input in column D)	Guidance notes to complete column D
Q18	Do you have any further feedback on ASX's proposed implementation approach for Release 2?	<p>We have additional feedback on the subregister and interoperability:</p> <p>(1) Subregister Functionality: We support the expansion of the subregister's functionality to include additional information. Enhanced functionality will improve transparency, data accuracy, and market efficiency, provided that the additional data is made available to share registries and ETF issuers. Indeed, it is particularly important to ensure that share registries and ETF issuers have a means of contacting their investors.</p> <p>To maximise the benefits of changes to the subregister, it is therefore essential to ensure market participants such as brokers provide this information to the ASX, through:</p> <p>(a) creating incentives, such as reduced fees for comprehensive data submission or enhanced access to market insights and analytics; or (b) imposing a compulsory requirement to do so.</p> <p>Additionally, upgrading the subregister's functionality to support more sophisticated data analytics, real-time updates, and better integration with other market systems would significantly benefit market participants.</p> <p>(2) Interoperability: We support the proposed approach to settlement interoperability for the CHES replacement. Interoperability is crucial for improving market efficiency, ensuring backup systems are in place, and facilitating seamless integration with other market systems. Adopting global standards for interoperability will align the Australian market with international best practices, making it more attractive to global investors. This alignment will also facilitate cross-border transactions and enhance the competitiveness of the Australian market.</p>	Free text
Q19.1	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?	Conditionally supportive (please explain below)	select the applicable response from the drop down
	Please provide reasoning for your response above	<p>While we support the transition to T+1, we believe that the proposed timeline of at least 12 months after the Release 2 go-live date and a minimum of 18 months after a decision to transition to T+1 is too conservative. Given the significant benefits of T+1 settlement, we recommend a more aggressive timeline, which will ensure that the Australian market remains competitive and aligned with global best practices.</p> <p>Our ETF issuer members strongly support achieving T+1 by either bringing T+1 settlement ahead of Release 2 or splitting Release 2 into settlement and subregister stages, with T+1 settlement to be implemented prior to any changes to the subregister.</p>	Free text
Q19.2	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.	<p>The ASX should consider the following factors regarding the approach and timeline for a transition to T+1 settlement:</p> <p>(1) Global Alignment: The transition to T+1 should be aligned with global markets to ensure competitiveness and facilitate cross-border transactions. Markets such as the US have already transitioned to T+1, and aligning with these markets will enhance the attractiveness of the Australian market to global investors.</p> <p>(2) Stakeholder Engagement: Continuous engagement with stakeholders, including ETF issuers, brokers, and custodians, is essential to ensure a smooth transition. Regular updates, consultation sessions, and feedback mechanisms will help address any concerns and ensure readiness.</p> <p>(3) Operational Readiness: Robust testing and phased implementation are crucial to ensure operational readiness. The ASX should provide training and support to market participants to facilitate the transition.</p> <p>(4) Regulatory Compliance: Ensuring compliance with relevant regulations and standards is essential for maintaining market integrity and trust. The ASX should work closely with regulatory bodies to ensure a smooth and compliant transition.</p> <p>(5) Technology Upgrades: Ensuring technology infrastructure has the capability to support T+1 settlement is essential.</p>	Free text
Q20.1	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		Free text
Q20.2	To assist Software Providers with their industry testing, do you have any further feedback on testing scope, duration or approach?		Free text
Q21.1	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		Free text
Q21.2	To assist CHES Users with their industry testing, do you have any further feedback on testing scope, duration or approach?		Free text
Q22	To assist CHES Users with their go-live readiness, do you have any further feedback on testing scope, duration or approach?		Free text