

1 October 2024

Sent by email: CHESSReplacement@asx.com.au

Dear CHES Replacement Project Team,

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

Introduction

National Stock Exchange of Australia ('NSX') is pleased to provide its response to ASX Settlement on its CHES Replacement Release 2 consultation.

Many of the questions are not relevant to NSX purely as a listings market operator. NSX has a broader interest in competition and equal access to clearing, settlement and subregister services and having fit-for-purpose market infrastructure in place to support this access to all market operators in today's environment.

With the above in mind, NSX has made some observations, which we believe are important to certain themes and aspects of the Consultation Paper.

We also note that the current review of pricing for CS Services, which incorporates Issuer Services is of particular interest to NSX which we broadly link to the category of Subregister Services.

Responses to Relevant Questions and Statements in Paper

Q4. Please provide any feedback on the proposed timing and approach regarding transitioning to a T+1

Our Response:

We presume that you mean transition to a T+1 settlement cycle for, at least, transactions executed on and reported to ASX (the market operator) rather than for all securities on all markets serviced by CHES Replacement.

Ideally, Market Operators would have flexibility to determine the settlement cycle at the market or product level.

3.10.2. Resilience: Cloud

Our Response:

CHES Replacement will exist in AWS. CHES Users may also have their middle and back offices in AWS. In such circumstances, the current approach "exclusively through ASX Net" would seem to require such a CHES User to exit AWS, transit across network connectivity "exclusively" provided by ASX only to re-enter AWS. Given the existing capability to connect within AWS, this appears entirely unnecessary and contrived only to support ASX's Technical Services revenues.

Indeed, other "high performance and secure network[s]" may be available as potential competitive alternatives to ASX Net for connectivity between CHES Users and CHES Replacement in AWS both of which are outside of Australian Liquidity Centre (ALC).

This contrasts with current CHES which resides inside ALC which mandates the use of ASX Net and is the natural monopoly service provider for the last leg cross connect.

CHES should define the standards that any network wishing to offer such a service should meet and be agnostic to any network provider that meets such standards. We assume that, given ASX's own selection of AWS, data paths through AWS will be acceptable?

3.11.4. Functionality being progressed outside of the CHES replacement project

Our Response:

The overview suggests this paper sets ASX's plans to enable the technical foundations for interoperability in Section 6, enabling market operators, clearing and settlement facilities and other providers to access and interoperate with the individual clearing, settlement and sub-register services using standardised interfaces."

ASX has recognised the segregation of clearing services [CS], settlement service [SS] and subregistry services [SrS] in the phased approach wherein changes to CS form phase 1 and changes to SS and SrS form phase 2.

However, CHES Replacement substantially remains a unitary "black box" and TCS BaNCS is advertised as offering "unified clearing, settlement, and integrated risk and collateral management". The interfaces between CS / SS and SS / SrS are not visible – at least from the outside the black box. Providing such transparency – at least between CS / SS – is seemingly out of scope of CHES Replacement [Table 13: Scope items intended to be progressed outside of CHES replacement - Integrations to upstream systems].

A clearly defined and publicly available definition of the interface between each set of services would seem to be a necessary pre-condition for competitive access to such services. The absence of such a definition will inevitably lead to a delay in competition whilst such matters are clarified or, worse, determined. Further, the lack of transparency may tend to reinforce the natural bias to "internal" workflows that can emerge (or may be as designed) in vertical monopolies and the lack of clear definition has the potential to facilitate obfuscatory charging.

We suggest that definition and, potentially, exposure of these interfaces should not be deferred to an undefined alternative project; instead, these interfaces should be defined and made public now and ASX (CHES Replacement Project) should confirm that each set of services accesses each other set of services in the same manner, and on equal terms, to any potential competitor.

CS, SS and SrS should be 3 sets of services which can be completely isolated from each other such that a competitor for any of those business can be seamlessly inserted at any point. This is the model for competition that has succeeded elsewhere.

Q6.1. Would your organisation use an optional segregated account structure if offered by the CHES replacement system?

Our Response:

e) Not applicable to my organisation

Q6.2. If you answered yes or possibly to Q6.1, which account structure would suit your organisation best?

Our Response:

e) Other (please specify below)

Q6.3. Please provide any further information about the proposed optional segregation models.

Our Response:

We note with ongoing curiosity the dealing capacity “mixed” which seems to come with either inherent conflict and/or lack of clarity and which results in an additional tier of accounts in CHES with the somewhat telling name of “Unallocated”.

We suggest it would be simpler, and eliminate any potential conflict and/or lack of clarity and complexity, if “Principal” and “Agent” were the only recognised dealing capacities at least on one each side of transaction.

We further note that the concept of “matched principal” – which was introduced in other jurisdictions to ensure transactions as principal that have no market risk are recognised by clearing houses and which lead to a corresponding reduction in clearing cost – could have benefits both for risk management for clearing houses (in better identifying and managing the level of risk risk) and for associated fees for clearing house participants.

We appreciate that these suggestions would inter alia require changes to the Market Integrity Rules.

Q14. Does your organisation support the proposed connectivity and interface options in CHES replacement Release 2?

Our Response:

Proposed approach is necessary but not sufficient.

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?

Our Response:

a) Supportive

However, there are no specific questions on access.

Q17. 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.

Our Response:

- a) January
- b) February
- h) August
- l) December

I thank the CHES Replacement Project Team for the extension of time granted to NSX to lodge our response.

Yours sincerely,



Chan Arambewela

Chief Operating Officer,

National Stock Exchange of Australia