



CHES Replacement Project

**Implementation & Transition
Webinar**

16 December 2020

Housekeeping: trouble shooting

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- Audio options:
 1. Use your computer's mic and speakers ("Computer audio"). Check that your computer's audio is unmuted
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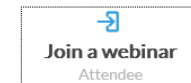


- ✔ OS - Windows 8.1
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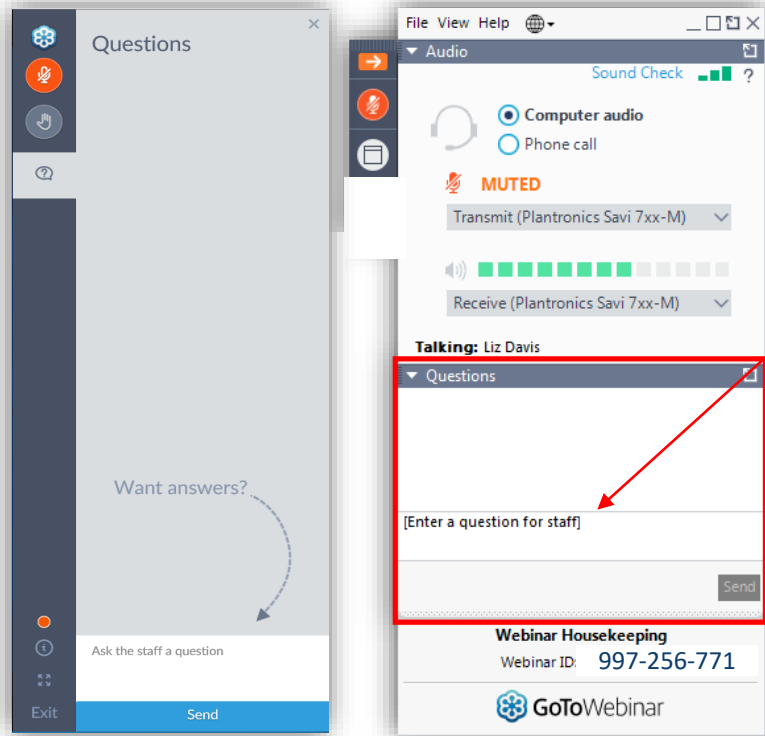
Test your system again

View System Requirements

Next steps



Housekeeping: how to submit questions



Your Participation

- To submit your text questions and comments use the Questions panel
- Note that your questions will not be seen by other attendees

For more information - refer to the webinar tips published on the ASX [CHES](#)
[Replacement web page](#)

Agenda

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- NBO and settlement process re-design
-
- DRP & BSP functionality
-
- CDE update
-
- Information paper on data governance under CHES and CHES replacement
-
- Forward stakeholder engagement plan
-
- Q&A
-
- Next steps
-

Presenters and introductions

Keith Purdie - Senior Manager, Equity Post Trade Services

Timothy Hogben – Group Executive, Equity Post Trade and CHESS Replacement

Frederik Van Den Weghe - Head of Product, Equity Post Trade Services

Sue Julian - Manager, Equity Post Trade Services

Fraser Moodie - Senior Manager, Connectivity & Integration, Equity Post Trade Services

Jacki Oliver - Legal Counsel, Office of General Counsel

Net Broker Obligation (NBO) and settlement process re-design

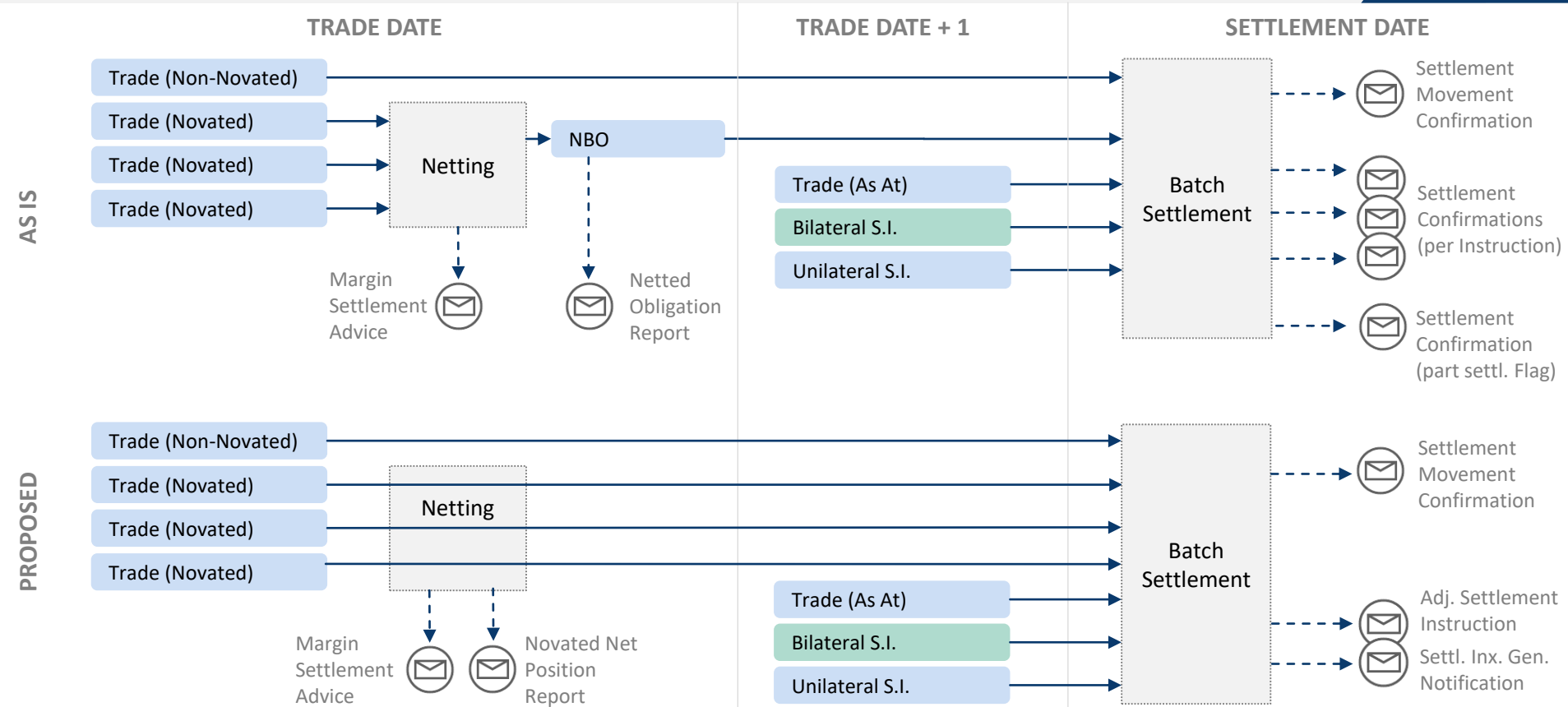
Background

- > Extreme volume increases in March 2020 requires CHES replacement to deliver significantly more throughput capacity and the ability to scale more quickly to even higher throughput capacity post-Day 1
- > No appetite from the market (AMOs and front offices) for a capacity related event post go-live or for interim constraints on trading activity being imposed
- > Refining the NBO process was originally considered as a potential enhancement that could be implemented after go-live of the system – March 2020 changed this timing
- > A workflow change for CCP netting and subsequently settlement is required to deliver significantly higher capacity
 - This will likely require a refactoring of code already completed by software providers
 - It will have an impact on current workflows for clearing and settlement participants

Key considerations

- > Benefits of netting will be retained (~98% net down settlements, ~60% net down value)
- > Settlement finality will not be impacted
- > DvP Model 3 and its associated market efficiencies will be retained
- > Net delivery and funding positions will still be reported to participants, albeit in a different form
- > Message dissemination will be compressed in the overnight batch process
- > The solution cannot constrain trading behaviours and volumes
- > Edge cases must be catered for (e.g. change in client protection)
- > Settlement processing will become more highly scalable and cater for significant increases to both market and client instructions
- > ASX to engage with all impacted stakeholders and provide for a review period for formal feedback

Overview of change



Additional considerations

- > **Reporting:** Additional message based reporting is envisaged to be provided to Participants (post Settlement), containing all settlement instructions settled for nominated or requested HIN, security, basis of movement and business date combination.
- > **Buyer Protection:** New workflow will be introduced to enable Participants the ability to reveal the original counterparty of a Gross Market Trade before settlement, whilst maintaining the trade as novated. This is to provide an electronic mechanism in assisting in buyer protection over complex corporate action events.

Stakeholder Engagement

Key forums and milestones

- > Webinar with impacted stakeholders on detailed workflows – February
- > Consultation paper – February
- > 4 x Focus Groups on solution design – late February/early March
 1. Software vendors
 2. Clearing and settlement participants
 3. Custodians
 4. Settlement only participants
- > ISO 20022 Technical Committee – March
- > Functional specifications and messaging requirements – end March
- > Functional code changes – end June (CDE 10)

DRP & BSP functionality

Original DRP & BSP Election requirements

Original solution consulted on:

- > Deliver a standardised, electronic mechanism to submit DRP/BSP elections for all CHES Eligible Securities (including mFunds) to Issuers (Registries) at any time on an aggregated basis
- > Generate a real time electronic acknowledgement of receipt, providing certainty the Issuer (Registry) has received an election
- > Pre requisite for processing DRP/BSP elections was the creation of a Corporate Action Record at Issuer level in CHES
- > Issuer was required to send a notification to Participants for all DRP/BSP elections they received directly from a shareholder
- > CHES to store the most recent DRP/BSP election recorded
- > Provide the ability for all Participants to enquire on a sponsored clients' election held with the Issuer (Registry)
- > Usage by Participants will be optional
- > Usage by an Issuer (Registry) is mandatory

Amended DRP & BSP Election requirements

New solution following Tranche 2 Rule consultation feedback:

- > Offer a standardised, electronic mechanism to submit DRP/BSP elections for all CHESSEligible Securities (including mFunds) to Issuers (Registries) at any time on an aggregated basis
- > Generate a real time electronic acknowledgement of receipt, providing certainty the Issuer (Registry) has received an election
- > Pre requisite for processing DRP/BSP elections is the creation of a Plan Record at Issuer level in CHESSE
- > Will not maintain a current record of election status across CHESSE holdings
- > Issuers are no longer required to notify ASX of elections or cancellations of elections occurring outside of CHESSE other than for an issuer-instigated cancellation of an election that had been notified through CHESSE (e.g. where DRP Rules require an election be cancelled when a holding becomes Nil)
- > Provide the ability for all Participants to enquire on a sponsored clients' election held with the Issuer (Registry)
- > Usage by Participants will be optional
- > Usage by an Issuer (Registry) is mandatory

CDE update

CDE 9 – Release



- > The ninth drop of code into the Customer Development Environment (CDE 9) is now available
- > CDE supports early access development and low volume transaction and functional testing, following the iterative development of the technical solutions
- > Technical documentation accompanies the release with full release notes
- > Functionality includes
 - Investor Data
 - Daily Margin Settlement Advice
 - Payment Provider Authorisation for RTGS Payments for Bilateral Demand Settlement Instructions
 - Reporting (On-demand cum entitlement balance)

CDE 9 – New Test Tooling

Function	CHES User Type	Tool Type	Function
Investor Data	Sponsoring Participant	Auto-responder	Plays the role of a Share Registry and accepts / rejects the banking details based on bank account range
Investor Data	Share Registry	Self-serve	Allows a Share Registry to generate workflow to play the role of Sponsoring Participant to create accounts and generate investor data
Daily Margin Settlement Advice	Clearing Participant	Auto-injector	Plays the role of ASX Clear and creates a daily margin settlement amount based on business dates
Payment Provider Authorisation for RTGS	Payment Provider	Auto-responder	Plays the role of a Payment Provider who has not responded to either batch settlement or bilateral demand transfer

Information paper on data governance under CHES and CHES replacement

Overview

- > On 4 December, ASX published an **information paper on data governance** under CHESS and CHESS replacement
- > The paper explains ASX's data governance arrangements for data that is received by CHESS and the limited updates to the data that is received and how it will be managed under the new system
- > ASX has group-wide data governance framework that applies to all data held across the organisation
- > ASX's data governance arrangements for CHESS are shaped by the legal and regulatory framework within which ASX Settlement operates
- > This includes arrangements to ensure the confidentiality, security and integrity of the data, and compliance with applicable data protection laws such as the Privacy Act

Key points to note

- > The data governance arrangements for CHES today will continue to apply under the new system
- > There will be only limited updates to the data received and how it is managed under the new system
- > The operating rules provide the framework for the collection, use and disclosure of data received by CHES
- > The rules specify what data needs to be provided and the purposes for which it is provided
- > The rules provide the framework for access to the data received by CHES, including the parties that can access the data and restrictions on disclosure
- > The rules dealing with data and access to data will remain unchanged unless specified in the rule amendment consultation papers (e.g. the rules in relation to the DRP/BSP election functionality)
- > Under current CHES and the new system, security and access controls are designed to ensure that access to data is limited to entitled users performing a function in relation to that information

Forward stakeholder engagement plan

Overview

Stakeholder engagement

- > ASX will continue to engage with all stakeholders throughout the development, testing, accreditation, operational readiness and cutover and transition phase through a mix of existing channels and new forums
- > Existing channels for engagement that will continue include:
 - Business Committee – regular updates on the project including engagement activities
 - Bilateral meetings – 1:1 engagement with CHES users including monthly meetings with software providers
 - Implementation & Transition working group – monthly webinars with CHES users and industry associations
 - Focus groups (reconvening) – proposed solution design for NBO and settlement redesign
 - ISO 20022 Technical Committee (reconvening) – ISO message development for NBO and settlement redesign
 - Consultation – NBO and settlement redesign + tranche 3 rules consultation and consolidated rules package
 - Documentation portal - regularly updating specifications, procedural guidelines and other project artefacts
 - Website - regularly refreshing the CHES replacement section on the ASX public website
 - Factsheets – clear and simple messaging on the project, targeted to specific cohorts
 - Newsletters – monthly project updates

Overview

Stakeholder engagement cont.

- Industry committees and working groups - continue to use the Equity Settlement Payment Providers Sub-Committee (ESPPSC) meetings hosted by AusPayNet to engage with payment providers; and attend ACSA working groups and AFMA Markets IT Committee
 - Regulatory Agencies and Government Relations - continue to provide updates in line with project developments
- > New channels or methods for engagement include:
- Establish a software provider readiness working group in advance of ITE1 opening
 - Establish a customer readiness working group in advance of ITE2 opening
 - Establish a cutover and transition readiness working group in advance of migration dress rehearsals and go-live
 - Greater direct engagement with industry associations

Issuers

2021 engagement activities

- > Factsheets – additional short factsheets including guidance for issuers on readiness activities for CHES replacement (e.g. possible amendments to DRP/BSP plan rules and/or constitution)
- > Webinars – informative sessions online with issuers to discuss CHES replacement, distributed ledger technology, readiness and additional benefits to issuers of CHES replacement
- > Bilaterals – continue bilateral engagement
- > Pricing – engage with issuers on a new pricing model for CHES Holding Statements, passing on savings to issuers as investors transition to electronic delivery
- > Listed@ASX – continue to publish twice-a-year project related articles specific to listed companies

2021 Forward Work plan

Key Project Milestones

	January	February	March	April	May	June	July	August	September	October	November	December
Engagement on NBO & settlement process redesign		Webinar Publish consultation paper Focus Groups	Focus Groups Technical Committee Docs published			End June: release code into CDE (CDE10)						
Electronic CHES holding statements	Info paper on system design & solution		Pricing model published Go-live									
Pricing – Day 1 Clearing, Settlement & other services	Engagement with clearing and settlement participants			Engagement with regulatory agencies			Announcement of Day 1 pricing					
Pricing - CHES Access				Publish access pricing for other users								
Industry test strategy					Information paper on industry testing strategy							
Migration approach – single cutover										Information paper on the migration approach		
Operating rule amendments								Tranche 3 and consolidated draft rules consultation - early-Aug (open) to mid-Nov (close)				

IMPORTANT NOTE: all meetings, including dates and sequencing, are subject to change. This includes additional meetings based on stakeholder feedback

2021 Forward Work plan

Key Engagement Activities

	January	February	March	April	May	June	July	August	September	October	November	December
Business Committee				Mtg #1 14 April			Mtg #2 14 July			Mtg #3 6 Oct		Mtg #4 8 Dec
Issuer Engagement	Publish Issuer readiness factsheet						Targeted webinars e.g. electronic statements, DLT demos					
I&T Working Group		Webinar (inc. NBO and settlement redesign)	Webinar (inc. demo of Reg. tool)	Webinar (inc. NBO and settlement redesign)	Webinar (inc. CHES UI demo)	Webinar (inc. CDE 10, connectivity accreditation scenarios)	Webinar (inc. Industry test strategy)	Webinar	Webinar (inc. CDE 11)	Webinar	Webinar (inc. ITE1)	Webinar
Software Provider Readiness Working Group									Kick off – WG #1 (inc. ITE connectivity)	WG #2	WG #3	WG #4
Customer Readiness Working Group												[to commence in 2022]
Cutover & Transition Readiness Working Group												[to commence in 2022]

IMPORTANT NOTE: all meetings, including dates and sequencing, are subject to change. This includes additional meetings based on stakeholder feedback

Q&A

Next steps

Next steps

Immediate steps following today's session

Review and feedback:

- > Webinar recording, slides and Q&A will be published on the CHES Replacement webpage
- > Provide feedback by contacting CHESReplacement@asx.com.au – use “I&T webinar” as the subject heading
- > Feedback welcome by COB Friday 15 January 2021

Next Implementation & Transition Working Group meeting:

- > Date: February 2021

Thank you.



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