

22 June 2018

Office of General Counsel
Email: regulatorypolicy@asx.com.au

Attention: Cliff Richards

Dear Cliff

CHESS Replacement: New Scope and Implementation Plan

The Australasian Investor Relations Association (AIRA) welcomes the opportunity to comment on the ASX's plans to replace its CHESS system of clearing, settlement and post-trade services for entities listed on the Australian equities market.

AIRA understands the need to update the existing system and broadly supports a plan which provides transparency, cost benefits, operational efficiencies and certainty of data ownership to listed entities and to those businesses that provide related services.

AIRA notes, however, that this goes beyond being a CHESS replacement because it introduces new elements that would result in the ASX expanding its services. That means there could be far reaching impacts for issuers and investors. It is important, therefore, for the ASX to provide a business case, including a financial analysis of its plan, to demonstrate how the industry would be transformed. A more centralised CHESS operation and suite of services represents a change in the business and regulatory oversight. It also raises questions about the ASX's medium-term plans in relation to issues such as the administration of corporate actions and the provision of services to issuers and investors.

There are elements of the plan that appear to be beneficial to issuers. Some other elements have not been sufficiently developed or detailed to enable us to form a view, or they require additional information. We have included questions to help in addressing those issues.

COMMENTS OVERVIEW

Transparency – Some issuers believe they have been overlooked so far during the consultation process, particularly compared with the engagement undertaken with other interested groups.

Costs – Issuers have no clarity as yet as to the costs they will incur with the new system, including access to the Distributed Ledger Technology (DLT). It is important for them to have a clear understanding whether costs will be on a holder level, for each transaction or levied as a flat fee. They also require clarity on whether the new CHES will include an improved system of reporting that allows issuers to verify the invoices they receive from the ASX for services provided, including such items as broker holdings statements? Another issue is whether they will incur higher costs through the removal of redundant CHES messages; the separation of receipt of application and application monies; and administration requirements including the provision of static data such as TFNs, bank accounts and email addresses.

Data Ownership – Issuers own the data that makes up their register of members. This is important because the ASX has yet to define how access permissions would be given to the DLT.

SPECIFIC COMMENTS

Our response on specific questions outlined in the plan is as follows:

Reference	Title	Issuer Considerations
2.2.1	Account Information – Common Investor Number	<p>Data ownership and cost issues The CIN system will be optional. Analysis regarding the opportunity this presents has not been tested. There are risks in aligning HINs and SRNs by a participant where no recognisable broker/participant relationship exists.</p> <p>Questions</p> <ul style="list-style-type: none"> • Will this be used to maintain beneficial holders managed by custodians and, if so, will it be mandatory? • Will issuers be able to access virtual portfolios relevant to them? If so, how and at what cost?
2.2.2	Account information – Additional investor information	<p>Data ownership and cost issues The provision of additional services, such as account information, capture and storage, along with new investor services as requested by stakeholders, do not cover ownership of the data or address issues of data privacy. Some of the rationale is not aligned with current practice e.g. SPPs mostly allow beneficial shareholder participation, so any change won't make it more attractive for issuers to extend their offer to beneficial holders.</p> <p>Questions</p> <ul style="list-style-type: none"> • Will beneficial shareholder information be complete and up-to-date? • Will beneficial shareholder information be available to the issuer for reporting? • If so, what will be the means and cost? • Will it be mandatory for custodians to provide this information via the new system?

Reference	Title	Issuer Considerations
2.2.3	Account Information – Centralised data capture and storage	<p>Data ownership, privacy and cost issues Proposals on the capture and storage of values related to the management of a CHES holding are unlikely to solve the stated problem. Issuers could become more dependent on the ASX for this critical data. There are privacy issues related to TFNs.</p> <p>Questions</p> <ul style="list-style-type: none"> • Will all values be maintained via the broker/custodian, similar to existing registration details? • What costs are associated with issuer receipt of values? • What controls will issuers have over the data on their register and will it be up-to-date? • Email addresses are not listed as a proposed value? • Is there a risk of data duplication between the register and ASX central data store? Which source has primacy?
2.2.4	Account information – Standardised registration details	<p>Cost issues The format suits new holdings, but cost details have not been disclosed for issuer holdings. This could be substantial if issuers need to match data fields, which would create a significant challenge for integration across systems and processes. The migration of an expected 20 million live accounts would be risky. There are also print and post issues related to the significant increase in the size of registration details.</p> <p>Questions</p> <ul style="list-style-type: none"> • What problems does this solution address? • What benefits will it bring? • What will the costs be for issuers?
2.2.6	Pre-settlement – Settlement lock for Issuer Sponsored holdings	<p>Transparency issues Brokers could instruct that a holding lock be applied pre-settlement regarding an issuer sponsored holding. Significant development would be required and uncertainty arises regarding controls and liability.</p> <p>Questions</p> <ul style="list-style-type: none"> • Will the lock impact on issuer’s ability to apply a corporate action or other change to holding? • What issuer reporting is relevant for locked balances? • How will issuers benefit from this?
2.2.10	Pre-settlement – Single access point to validate SRN	<p>Data ownership issues This would see the daily upload of complete Issuer Sponsored sub-registers to the ASX to facilitate SRN enquiries from brokers.</p>

Reference	Title	Issuer Considerations
		<p>Questions</p> <ul style="list-style-type: none"> • What are the benefits, what problems would be addressed and is the solution in scale with the problem? • What other uses are there for the data? • What other information is needed? Will this prevent intra-day processing? • Will the ASX enquiry facility increase investor risk by lowering the threshold for validation?
2.2.16	Corporate Actions – Electronic elections for DRPs and BSPs	<p>Data issues This is a potential benefit as a conduit for CHES holder acceptances, but risks arise for issuer sponsored holders because it is not possible to validate investor consent.</p> <p>Question</p> <ul style="list-style-type: none"> • Will these elections be passed to share registries for validation and processing?
2.2.17	Corporate Actions – Electronic acceptances for entitlements offers	<p>Data ownership issues There are risks for issuers and investors by not being able to validate investor consent for issuer sponsored holdings.</p> <p>Question</p> <ul style="list-style-type: none"> • Will acceptances be passed to share registries for validation and processing?
2.2.18	Corporate Actions – Electronic payment for entitlement offers	<p>Data ownership issues As above, there are risks for issuers and investors by not being able to validate investor consent. Payments may be received separately to acceptance details.</p> <p>Question</p> <ul style="list-style-type: none"> • Will acceptance payments be immediately passed to share registries for processing?
2.2.19	Corporate actions – Transfer of cum entitlement balance	<p>Predominantly, this supports securities lending arrangements by allowing the transfer of an entitlement without transferring the parent holding until the close of record date. This entitlement transfer separate to its parent holding may represent a new form of security under the Corporations Law.</p> <p>Question</p> <ul style="list-style-type: none"> • How will issuers benefit?
2.2.20	Reporting – Continuous holding balance information	<p>Cost issues This should enhance the visibility of transactions on registers where there is more than one daily movement. We note that costs are yet to be determined.</p>

Reference	Title	Issuer Considerations
2.2.21	Reporting – Electronic provision of holding statements and notifications	<p>Data ownership issues The registry providers’ role is not clearly explained compared with the ASX’s role regarding the capture of account information.</p> <p>Cost issues These are not stated, but issuers could expect costs to be reduced for producing and distributing CHES statements.</p> <p>Questions</p> <ul style="list-style-type: none"> • Will the ASX collect email addresses for shareholders and gain permission to send holding statements? • Will it be an opt-in process? • Will they be uploaded to an individual’s shareholding? For example - issuers now spend considerable time collecting email elections. This may be hampered if the permission is only given to the ASX at the time of electronic holdings statements. • Have alternatives been considered? • Query whether an email should form part of the register of members, as per discussion re Modernisation of Members Bill 2017? • Would such a service be contestable, particularly because issuers already hold email addresses on their registers?
2.4.2	Corporate Actions – Electronic processing of dividend claims	<p>Data ownership issues Regarding incorrect dividend payments, consideration is required re reporting to the ATO and other international agencies.</p> <p>Questions</p> <ul style="list-style-type: none"> • Will any claims be reported to the issuer? • How will this provision benefit issuers?
2.4.3	Corporate actions – Electronic proxy voting	<p>Data ownership issues Risks arise for issuer sponsored holders, although they may be beneficial for CHES holder votes. Mechanisms should not be mandatory or reduce competition for such electronic voting services, enabling the market to drive innovation.</p> <p>Questions</p> <ul style="list-style-type: none"> • How will the identification of beneficial holders be managed and collated to the registered holding? • It is not possible to validate investor consent for issuer sponsored holdings and this poses risks for issuers and investors. • Will share registries receive votes for validation and processing?

Reference	Title	Issuer Considerations
Appendix 1	Corporate Actions STP Phase 2 Project	This requires the input of more event types and details into the ASX announcements platform. This is not related to the CHES replacement project.

This submission represents the views from a cross-section of AIRA's membership.

We would further welcome the opportunity to be involved throughout the consultative period.

Kind regards



Ian Matheson
Chief Executive Officer

About AIRA

The Australasian Investor Relations Association (AIRA) was established in 2001 to advance the awareness of and best practice in investor relations in Australia and New Zealand and thereby improve the relationship between listed entities and the investment community. The Association's 160 corporate members now represent over A\$1.2 trillion of market capitalisation, over 80% of the total market capitalisation of companies listed on ASX.