

Australian Custodial Services Association
Level 29, 44 Market Street
Sydney, NSW, 2000

13 September 2024

Mr C Triance
Group Executive Securities and Payments
ASX Operations Pty Ltd
20 Bridge Street, Sydney, NSW, 2000
CHESSReplacement@asx.com.au

Dear Clive,

RE: ASX CHESS Replacement Consultation paper on Release 2

Please find attached the Australian Custodial Services Association (ACSA) response to the ASX CHESS Replacement Consultation paper on Release 2.

ACSA is the peak industry body representing members of Australia's custodial and investment administration sector. Our mission is to promote efficiency and international best practice for members, our clients, and the market. Members of ACSA include NAB Asset Servicing, J.P. Morgan, HSBC, State Street, BNP Paribas Securities Services, BNY, Citi, Clearstream, and The Northern Trust Company.

Collectively, the members of ACSA hold securities and investments in excess of AUD \$5 trillion¹ in value in custody and under administration for Australian clients comprising institutional investors such as the trustees of major industry, retail and corporate superannuation fund, life insurance companies, responsible entities and trustees of wholesale and retail investment funds, and various forms of international investors into Australia.

ACSA welcomes the opportunity to respond and provide input into the consultation process regarding the ASX CHESS Replacement Consultation paper on Release 2 and we welcome further input and engagement on this topic.

If you have any questions in relation to this submission please contact me.

Yours sincerely

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¹ As at 30 June 2024, <https://acsa.com.au/page/IndustryStatistics>

About ACSA

About the Australian Custodial Services Association (ACSA)

The Australian Custodial Services Association (ACSA) is the peak industry body representing members of Australia's custodial and investment administration sector. Our mission is to promote efficiency and international best practice for members, our clients and the market. ACSA works with peer associations, governments, regulators and other market participants on a pre-competitive basis to encourage standards, process consistency, market reform and operating efficiency. Established in 1994, ACSA members currently hold assets in excess of \$4.5 trillion in custody and under administration for Australian institutions.

The key sectors supported by ACSA members include large superannuation funds and investment managers, as well as other domestic and international institutions. Custodians provide a range of institutional services to clients including traditional custody and safekeeping, investment administration, foreign exchange, securities lending, transfer agency, tax and financial reporting, investment analytics (risk, compliance and performance reporting), investment operations middle office outsourcing and ancillary banking services.

www.acsa.com.au

Important Note

ACSA works with peer associations, regulators and other market participants on a pre-competitive basis to encourage standards, promote consistency, market reform and operating efficiency. The views expressed in this letter are prepared by ACSA and should not be regarded as the views of any particular member of ACSA.

The comments in this letter do not comprise financial, legal or taxation advice.

Question 1.

Please provide any feedback on the proposed design, scope and schedule for Release 2.

ACSA is broadly supportive of the design, scope, and schedule for CHES Replacement Release 2.

The design addresses key long term industry requirements related to volumes, interoperability, and market features, however the exact scope and solutioning of several matters are yet to be finalised, and this will dictate the final outcome and the value the build brings to creating a more efficient and safe market for investors.

ACSA feels that support for corporate action processing is a critical component of the CHES Replacement system and an integral part of its long term success. The ability to automate highly bespoke manual processes presents a once in a generation opportunity for members to reduce operational risk and create certainty for institutional investors. Removing support for Corporate Action processing as part of the Release 2 scope would create further cost and complexity for ACSA members by duplicating build requirement and testing whilst negotiating whether the functionality would be in place before or after a move to T+1, should it be adopted.

The schedule is appropriate for all custodians in the market, and provides sufficient lead time to develop system connectivity to the updated version of CHES for all of the proposed functionality.

Question 2.

Please provide any feedback on the proposed testing and industry readiness approach for Release 2.

ACSA notes that the splitting of CHES Replacement into two releases has not materially impacted the risk profile of the transition for clearing and settlement participants; the second release remains a "big bang" approach, and detailed roll back plans will be required in the event of a failure by any party to migrate which cannot be resolved on a timely basis. Backup transition periods should be required in the unlikely event of the failure of the first attempt.

ACSA believes that investors and the financial services industry would be best served by a phased migration of some form to ensure that production environments are capable of performing all functions. However, the use of trading but non-settlement days should be avoided due the double settlement days created and potential doubling the impact should an issue occur.

ACSA recommends a go live date in late January to the end of February or mid July to late August, and suggests that this should be finalised 18 months before go live rather than 12 months before go live, given the significant lead time available between now and then.

Question 3.

Please provide any feedback on the proposed approach to interoperability for CHES replacement.

At the high level, CHES Replacement's approach to interoperability was designed to address vertical integration as underpinned by the "competition in settlement" laws. ACSA appreciates that the ASX has taken on industry feedback regarding the "horizontal" component of interoperability, and agrees with the ASX's comment that anticipating future market needs in this space is difficult. Key considerations are ensuring that were another settlement venue to enter the market, that STP between the systems would be possible end to end, as a core underpinning principle.

While the ASX cannot ensure this occurs unilaterally, ACSA highlights the importance of ensuring the system has these capabilities available, to be an enabler of an eventual solution.

Question 4.

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).

ACSA is supportive of moving to a T+1 settlement period one year after the migration to the CHES Replacement system. ACSA is firmly of the belief that the CHES Replacement system should be T+1 ready as part of the Release 2 scope from both a functional and non-functional perspective. The current scope of CHES Replacement addresses key functional requirements pivotal to enabling a T+1 settlement cycle. However, non-functional requirements such as moving the batch settlement time to later in the business day and longer operating hours have not been addressed. By incorporating these features into the release 2 scope participants would be able to minimize build and test requirements and avoid the need to run two concurrent projects from a technology perspective.

We welcome further engagement in this area, should a decision be made to adopt T+1, given the extended period of time before the go-live.

Question 5.

Does your organisation support the scope of the clearing upgrades for CHES replacement Release 2? Please provide context to your response above.

*Not applicable to ACSA
ACSA's members, in their capacity as custodians, are not clearers.*

Question 6

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

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

If you answered - Other above please specify

Please provide context to your response above

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

Not applicable to ACSA

Question 7.

Does your organisation support the proposed scope of settlement for CHES replacement Release 2? Please provide context to your response above.

Conditionally supportive

The scope of settlement changes broadly covers the needs of the market, however more detail is needed regarding some features. The contingent linking feature will be especially useful for the market if designed with sufficient sophistication, given the requirement for custodians to maintain omnibus positions in Australia.

Notes that the consultation refers to the Universal Transaction Indicator and we recommend that the indicator be made available as a matching criteria, if both parties have provided one. Mismatches on

free of payment trades, especially, is an ongoing issue in the market and the use of this indicator to agree settlement where available will eliminate that risk entirely.

The use of multiple additional parties should also include a specific provision for the ""account at agent"" to be supplied in the message; this would enable participants to identify their underlying customer unambiguously, if investors provide the information to their settlement agent. This information is freely available and provided by beneficial owners as part of their market SSI's.

The introduction of non-batch DvP settlements and the introduction of a ""hold"" indicator will, alongside operating hour extensions, be a key enabler of T+1 after the program.

Question 8.

Does your organisation support simplifying the processing of 'ex transactions' (i.e. Cum Entitlement Balances)?

Please provide context to your response above.

Conditionally supportive

ACSA is supportive of the use of corporate action entitlement messages to provide entitled holdings on record date (timing to be discussed and agreed) however the handling of ex and cum entitlement transactions requires deeper review, to ensure that the needs of various investor types are not inadvertently affected. Whilst real-time cum entitlement balances are not seen as a critical function, there needs to be a way of reconciling balances on an intraday basis based on settlement data should a discrepancy occur.

Question 9.

Does your organisation support the proposed scope of subregister and issuer sponsored processes for Release 2?

Please provide context to your response above.

Supportive

ACSA welcomes and strongly supports the scope for subregister and issuer sponsored processes, especially the response time for conversions to a HIN, and SRN query enhancements and the harmonisation and standardisation of registration details. The update from a residency indicator to a specific tag indicating whether a holding is subject to Reg S restrictions or other restrictions is a fantastic initiative which will greatly simplify the "FOR" process in Australia.

Question 10.

Does your organisation support the proposal to enhance registration details and allow for the sharing of additional investor information?

Please provide context to your response above.

Supportive

As per Q9

Question 11.

What additional investor information would your organisation find useful to be transmitted via CHESS? - See choices on column E (and select all that apply, via separate rows in column D)

**If you answered - Other above please specify.
Please provide context to your response above.**

- *Tax File Numbers (TFNs), Australian Business Numbers (ABNs) and Australian Company Numbers (ACNs)*
- *Foreign Account Tax Compliance Act (FATCA) / Common Reporting Standard (CRS) details such as tax residency and foreign tax identification number(s)*
- *Bank account details*
- *Mobile numbers*

Question 12.1.

**Does your organisation support the proposal for corporate action elections without payment (e.g. DRP/BSP) within the scope of Release 2 of CHESS Replacement?
Please provide context to your response above.**

Supportive

Global standards exist for the electronic processing of all corporate action events and we strongly support them being adopted in Australia. It is standard practice in developed markets for Corporate Action events to be centrally processed and end to end support to be provided from market announcement through to payment. Institutional investors expect the ability to submit corporate action elections electronically and for their instructions to straight through process to the issuer for processing, confirmation of acceptance and subsequent payment.

ACSA sees the adoption of this functionality as a critical development that should be implemented as part of the Release 2 scope of CHESS Replacement. Each year ACSA members process tens of thousands of electable dividend events where tens of billions of cash and stock are distributed to clients. In the current CHESS system every instruction to the share registry needs to be submitted manually either via fax, keyed into the share registry portal or manually moved between HINs to facilitate the election. This creates a significant risk for ACSA members who have to mitigate it through the use of additional manual controls.

Whilst we understand that this functionality has limited benefits for retail investors it is critical that it is adopted to support institutional investors who hold around 70% of the value of the ASX 300. One additional concern is that CHESS will send a notification of inbound payment to a participant, but not the payment itself. One core tenet of this notification is that it should represent actual receipt of funds; it will be important that CHESS and the paying parties agree on a mechanism by which receipt of a confirmation of payment from CHESS be equated to confirmed receipt of funds in the participant's account. This may preclude the use of ACH/Low value payments by the paying parties.

Question 12.2.

**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 CHESS Replacement?
Please provide context to your response above.**

Supportive

See response to 12.1.

Question 13.

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?

Please provide context to your response above.

Supportive

ACSA views this as a core Day 1 requirement.

Question 14.

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

Please provide context to your response above.

Not applicable to ACSA.

Given the strong global regulatory focus on resiliency ACSA believes that the CHES Replacement system should not only have inbuilt resiliency but participants should have an alternate method for connection available to them, that is capable of processing high volumes of settlement traffic, in the event that the primary instruction gateway is unavailable for a period of time. As was seen in the recent CrowdStrike event outages can occur in unexpected ways and having alternate channels to carry on normal processing is critical to the sound functioning of financial markets.

Question 15.1

Would your organisation be interested in using an optional data API if offered by the CHES replacement system as part of Release 2?

Please provide context to your response above.

Yes.

An API, built out over time to cover more and more use cases, is the optimal industry approach to making data available in real time, as needed.

Question 15.2

If you responded yes or possibly to Q15.1, what would your organisation use the data API for?

If you answered - Other above please specify.

Please provide context to your response above.

- *Holding Balances*
- *An API, built out over time to cover more and more use cases, is the optimal industry approach to making data available in real time, as needed.*

Question 16.

Given the other strong security controls, do you support ASX's proposal not to use ISO 20022 message signing of both input and output?

Please provide context to your response above.

Not applicable to ACSA.

Each ACSA member may have different house views as regards minimum security requirements.

Question 17.

Which (if any) months should be avoided for CHESS replacement Release 2 go-live?

Please provide supporting detail for each month that should be avoided.

January	x
February	
March	x
April	x
May	x
June	
July	x
August	
September	x
October	x
November	x
December	x

Covers key holiday periods, corporate actions and proxy voting peaks, and financial year end.

Question 18.

Do you have any further feedback on ASX's proposed implementation approach for Release 2?

Given the focus on STP within ACSA member organisation the 13 month period allocated to user testing appears to be excessive. ACSA would like to the alignment of the ASX AQUA listing rules with the standard ASX Listing rules with regards to corporate actions and dividend distribution timetables.

Distributions from many of the issuers who sit under the AQUA rules, in particular ETF issuers, do not follow the standard dividend timetable and do not publish distribution information through the ASX ISO 20022 service, as a result these events are often announced close to key dates and require bespoke manual processing of dividend elections. Under the proposed corporate action model this could result in a rapidly growing area of the market still relying on manual processing.

We feel that this is a loophole that must be closed, ideally before the CHESS Replacement implementation.

Question 19.1.

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?

Please provide reasoning for your response above.

Conditionally supportive.

12 months is an aggressive timeframe, as if there are issues with the go live which require additional industry work there may not be sufficient capacity across all parties to deliver T+1 on time. However, if all of the functional and non-functional requirements are included in the Release 2 scope we see no reason why this could not be achieved.

Question 19.2.

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.

All requirements for T+1 and the go live date should be finalised at the same time as CHESS Replacement Phase 2.

Question 20.1.

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.

Not applicable to ACSA.

Question 20.2.

To assist Software Providers with their industry testing, do you have any further feedback on testing scope, duration or approach?

Each member uses a different solution and will have their own needs.

Question 21.1.

With the information currently provided, is your organisation supportive of the time for CHESS Users to complete their testing in preparation for Operational Readiness? Please explain, including relevant detail if not supportive.

There appears, broadly, to be sufficient time for all activities to be completed.

Question 21.2.

To assist CHESS Users with their industry testing, do you have any further feedback on testing scope, duration or approach?

No.

Question 22.

To assist CHESS Users with their go-live readiness, do you have any further feedback on testing scope, duration or approach?

No.

