



22 June 2018

Regulatory & Public Policy  
ASX  
20 Bridge Street  
**SYDNEY NSW 2000**

By email: [regulatorypolicy@asx.com.au](mailto:regulatorypolicy@asx.com.au)

Dear Sir / Madam,

**CHESS Replacement: New scope and Implementation Plan**

Thank you for the opportunity to provide comments on the Scope and Implementation Plan for CHESS Replacement.

**DLT – the potential**

Members look forward to the implementation of the new ASX DLT platform and the benefits it will bring to the industry.

**DLT concerns**

Members have concerns about the scalability of DLT and the supposed benefits of immutability and security. These concerns are based on global experience.

**The challenge for ASX**

The challenge for ASX as expressed to us by members is the willingness of ASX to share the benefits of its new platform in an equitable way.

ASX enjoys a privileged position at the fulcrum of the Australian securities markets.

Although regulators monitor ASX closely, it is the view of members that the Australian securities market will only achieve its full potential from the collective investment of ASX and all stakeholders, if the ASX views all stakeholders as symbiotic

partners, rather than as customers to be charged whatever price can be achieved within a regulated monopoly framework.

### **Equitable sharing**

When SAFAA began the CHES Replacement Consultation process almost two years ago, the Association asked for ASX explicit cost reductions of at least 20% for members. (See Page 2 of our Submission of 28<sup>th</sup> October 2016). The ASX responded that members would have to utilise DLT to deliver efficiencies in their back offices.

Members are of the view that their back offices are already very efficient by world standards, and any extra efficiencies from the deployment of a DLT node will be marginal at best, not to mention the cost of the deployment. Hence the request for ASX explicit cost reductions for members of at least 20% stands.

If the ASX does not pass on cost reductions to compensate for the cost of DLT implementation, it is likely that investors in ASX listed securities will have to bear the cost, which would be detrimental to listed Australian securities markets.

### **Potential disintermediation**

DLT will give the ASX the ability to capture a massive amount of data currently held by a wide cross-section of its stakeholders.

Data is the new oil.

Given that data is the new oil, and that DLT will be the golden source of truth, ASX could emaciate the business models of many stakeholders by providing add-ons to the clearing & settlement service.

Whilst that may be good for ASX shareholders in the short term, Australia's listed securities markets would become even more concentrated, many existing stakeholders (including market participants) could disappear, and systemic risk would increase, which would not be good for ASX in the long term.

So in terms of an equitable sharing of revenue, perhaps ASX should start paying participants for their data (including registries) just as participants are charged for data from the ASX.

**The non-clearing/settlement services ASX is seeking to provide**

ASX use of the CHES replacement project to develop ASX business in other areas is, on one level, to be commended as it is a good response to initial client feedback (e.g., our 2016 submission asked for client aggregation & electronic transfers between sub-registers.)

However, it also raises some significant competition, data governance and other regulatory issues, not only for market operators seeking to compete with ASX but also market data providers and other vendors. Those issues arise because:

- ASX is proposing to use integrated systems to provide clearing, settlement, market data and other services – e.g., on our current understanding all market operator data will pass through the ASX’s NCore system prior to being forwarded into the DAML blockchain database and the NCore system is used by ASX to distribute market data and other vendor products;
- Market operators and firms must connect to ASX using the ASX proprietary systems and reference data;
- This process may provide a competitive advantage to the non-clearing/settlement businesses of the ASX (e.g., reference data, client data, registry services) given firms must use the ASX technology and systems for clearing/settlement and hence minimal system adaption may be required to use ASX as a data vendor;
- The barrier to entry in the non-clearing/settlement areas that is created by the need to adapt customer systems, that must be tailored to an ASX proprietary approach in clearing/settlement, to the competing vendor model;

**Big data governance issues**

Governance needs to be carefully considered given the multiple “big data” issues proposed by ASX including participants sharing client data with issuers, mFund data sharing & CINs.

**Insufficient information and unrealistic timelines - 2020 is not feasible**

The ASX has not provided appropriate information on timelines and costings for the rollout of DLT, and the cost of nodes. This makes it impossible for budgetary requests to be made for capex and makes it very difficult for vendors to configure systems.

Members have indicated that they cannot decide on a connection method until pricing is announced and vendors cannot assess nor start work until they get the technical specifications.

Members have therefore advised that it is unlikely they will be able to connect to the test environment when it becomes available *and a Q3 2020 accreditation is just not feasible.*

**Add-on services**

There has not been genuine consultation with current providers of “add-on services” such as registries, vendors and AMOs.

ASX needs to think carefully about nurturing each of the players in the eco-system and growing the Australian securities market rather than sizing up other businesses to disintermediate.

**Nodes**

One area not covered by the CP is a list of who will/will not be able to request/be offered a node in the blockchain and how that process will be governed. There is also a lack of clarity around what a node will do, and therefore it is not possible to compare the benefits of a node versus messaging formats.

**Lack of detail on interoperability**

There is an almost total lack of detail on how interoperability will be provided. At SAFAA 2017 in an interview with James Eyers, Blythe Masters confirmed that the DLT system would indeed be interoperable. If the DLT CHESSE replacement project is to achieve its potential, interoperability needs to be given high priority.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Andrew Green". The signature is fluid and cursive, with a large initial 'A' and 'G'.

**ANDREW GREEN**  
Chief Executive