



13 September 2024

Email: CHESReplacement@asx.com.au

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Group Executive, Securities and Payments
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Dear Clive

Consultation on the scope and implementation of CHES replacement Release 2 (Settlement and Subregister)

The Stockbrokers and Investment Advisers Association (SIAA) is the professional body for the stockbroking and investment advice industry. Our members are Market Participants and Advisory firms that provide securities and investment advice, execution services and equity capital-raising for Australian investors, both retail and wholesale, and for businesses. Practitioner Members are suitably qualified professionals who are employed in the securities and derivatives industry. The history of the stockbroking profession in Australia can be found [here](#).

SIAA members include clearing and settlement participants as well as software providers and CHES users developing in-house systems. SIAA is a member of the ASX Business Committee and attends the meetings of the ASX Technical Committee as an observer. SIAA is also a member of various CHES replacement working groups.

We welcome the opportunity to provide feedback on the Consultation Paper on the scope and implementation of CHES replacement Release 2 (Settlement and Subregister). We have provided the feedback of multiple members in aggregate.

General questions

Question 1 – Please provide any feedback on the proposed design, scope and schedule for Release 2.

SIAA is broadly supportive of the design and schedule for CHES Replacement Release 2. However, as the exact scope and solutioning of several aspects are yet to be finalised, it is hard to determine whether the build time allowed for in the schedule will be sufficient for software providers to deliver compliant systems. The previous CHES replacement project schedule allowed software providers 18 months for build and test. The current schedule allows approximately 12 months (a reduction of

around a third). Initial indications are that there will be substantial workflow changes to implement. We note that there may be a need to revisit the scope objectives set out in Appendix B of the consultation paper with industry over the course of the project and that this may include deprioritising or postponing certain elements.

SIAA's members will be better able to determine whether the scope for Release 2 will be deliverable in the proposed schedule when there is confirmation of day 1 scope including optional versus mandatory features.

Reducing Day 1 functionality (where Day 2 is possible) will simplify the initial go-live and we encourage ASX to strongly consider moving some functionality to a Day 2 release.

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

Our members have pointed out that overall, the testing and industry readiness plan is quite condensed, with a considerable number of activities occurring in parallel. For example, software readiness, accreditation and inflight migration testing are not only scheduled in parallel, they also overlap with CHES user preparation activities, for which software providers will also need to provide support to their clients. We have received member feedback that this overlap significantly increases the risk associated with the testing and industry readiness plan.

Another important issue raised by our members regarding the proposed testing and industry readiness approach is the importance of including other industry participants in the timeline. For example, a firm such as Lab Group that undertakes account opening activities will be impacted by Release 2 as registration details will change. If LAB Group needs to 'write' into new CHES, it will need access to Release 2 and this will need to be incorporated into the industry testing that is being undertaken in 2026/27. Platform providers are another industry group that will need to be taken into account when it comes to access and testing. While our members do not want the timetable to elongate, it is important that the project considers the needs of these industry participants now.

Question 3 – Please provide any feedback on the proposed approach to interoperability for CHES replacement.

SIAA strongly supports the proposed approach to interoperability.

Question 4 – Please provide any feedback on the proposed timing and approach regarding transitioning to a T+1 settlement cycle.

SIAA was pleased to see that the wider market feedback to ASX's consultation on transition to T+1 settlement was consistent with the views expressed by our members. Our members do not report any current demand from retail investors for a move to T+1.

As stated in our submission on T+1 settlement transition, CHES replacement is more important to our members than T+1. Most of our members prefer T+1 implementation after CHES replacement. They are concerned that trying to fit T+1 into the CHES replacement timeline will cause delays to the CHES replacement project. They are also concerned about how they will resource both CHES replacement and T+1 if they are done at the same time, particularly taking into account the other

upgrades and system changes that are currently proposed by ASX (Services Release 15) and Cboe (proposed listings framework).

Accordingly, our members strongly support a transition to T+1 settlement to occur after Release 2, with the transition to take place at least 12 months after the Release 2 go-live. A 12-month timeline will depend however on the success of the CHES replacement Release 2 go-live. If Release 2 go-live proceeds well and few issues are reported once in production, a period of 12 months between Release 2 go-live and T+1 transition is reasonable. However, if there are issues with Release 2 go-live and a stabilisation release needs to be rolled out by TCS BaNCS or software providers during this 12-month period, the move to T+1 in the same timeframe may come under pressure.

Functional and Technical scope – Clearing

Question 5 – Do you support the scope of the clearing upgrades for CHES replacement Release 2?

Our members are conditionally supportive of the scope of the clearing upgrades for CHES replacement Release 2.

Our members are supportive of the concept of continuous netting but require more detail on how continuous netting will operate in practice. If continuous netting avoids the issue of volume-related netting issues that delay the batch which can occur at present, that will be a positive development, particularly for those offshore clients who are more severely impacted if the batch is delayed. However, our members are unclear on how continuous netting will work in a highly traded stock like BHP for example, where the net will fluctuate significantly over the course of the day.

Question 6 – Segregated account structures

Our members are ambivalent about the offer of an optional segregated account structure. They recognise however, that it may benefit institutional brokers and those who undertake house trading. As such our members would not oppose segregated account structures being included in the scope but only if it was offered on an optional, not mandatory basis.

Our members who provide third party clearing services would like more information on what segregated positions for third party clearers would involve before they are able to indicate whether they would adopt this structure.

Functional and Technical scope – Settlement

Question 7 – Do you support the proposed scope of settlement for CHES replacement Release 2?

Members conditionally support the proposed scope of settlement for CHES replacement Release 2. Our members strongly support a DvP model 3 settlement with a single daily batch. We agree that the timing of batch settlement may need to be changed in preparation for T+1 and that further industry engagement will be required on this.

Our members conditionally support non-batch DvP settlement that supports the ability to settle intra-day on a gross basis but need more detail on how it will work before they can provide a final view. The introduction of this feature may allow participants to settle a failed trade at the end of the

day and may be a positive. However, our members have many questions about what parties would use this feature, what complexity it would introduce to the system and how it would work in practice. For example, if a seller fails and the purchaser wants to settle after batch, how will the system ensure there are counter-parties available at the end of the day to match? If a custodian has failed to match at 11.00am, will they be available to settle at 2.00pm? Or will the parties roll the settlement over to the next settlement day? Our members also have questions about how the banks will move the money required for a non-batch settlement and at what time the non-batch settlement will take place. Until our members have more detail on this they are unsure whether non-batch DvP settlement is a 'must have' or a 'nice to have' feature.

Question 8 – Do you support simplifying the process of 'ex transactions' (ie cum entitlement balances)?

Our members are unable to provide definitive feedback in answer to this question as they are unsure of the mechanics of the proposed changes. Our members are unclear about how the proposed changes would impact custodians, brokers and registries and how they will work. For example, If a trade fails what happens to the cum entitlement? Our members consider that the 'devil is in the detail' when it comes to this proposed change and look forward to more engagement on this issue.

Functional and Technical scope - Subregister

Question 9 – Do you support the proposed scope of subregister and issuer sponsored processes for Release 2?

Our members are conditionally supportive of the proposed scope of subregister and issuer sponsored processes for Release 2.

Improvements to issuer sponsored processes that reduce the reliance on paper forms are welcomed. An issue that must be taken into account when designing these new processes is the increased problem of fraud resulting from identity theft. SIAA has been made aware of an increase in fraudulent activity by crime syndicates targeting issuer-sponsored holders. The fraudsters steal the identity of the shareholder, set up a fraudulent account, arrange for the issuer stock to be transferred and then sell the stock and steal the proceeds. The sophistication of frauds and scams is increasing. Changes to processes must be able to take this into account.

Question 10 – Do you support the proposal to enhance registration details and allow for the sharing of additional investor information?

Our members conditionally support the proposal to enhance registration details to enable the entry of full names and designations without abbreviation, up to four joint holders and addresses captured in a structured format. Applying a new format to existing holder registration details will be challenging. More details will be required on the proposed Registration Details Conversion Tool for data transformation.

Another challenge will be updating changes to communication preferences such as email addresses and mobile numbers and determining who will be responsible for this. Updating email addresses and mobile numbers in CHES is a burden for participants, particularly as they are charged CHES fees for

doing so. Any scope design must enable investors to update their email and mobile numbers direct with the registry.

Additional investor information

While it would be useful for the additional investor information listed in the consultation paper to be transmitted to CHES, participants do not want to be required on a mandatory basis to gather and transfer that information to CHES, particularly as they pay per CHES message. A participant must be able to elect on an optional basis not to provide this information. Whether or not a participant does so will depend on their business model.

Question 11 – What additional information would be useful to be transmitted via CHES?

Any additional information that is transmitted via CHES must be on an optional basis on the part of the participant. It must not be mandatory for them to transmit it via CHES.

Corporate actions

Question 12 – Do we support the proposal for corporate action elections (with and without payment) within the scope of Release 2 of CHES replacement?

Question 13 – Do we support the proposal for the ability to transmit additional corporate action distribution information within the scope of Release 2 of CHES replacement?

Our members conditionally support the proposals for corporate action elections (with and without payment) within the scope of Release 2 as well as the ability to transmit additional corporate action distribution information. As with the issue of additional registration details, these features must be provided on an opt-in, not a mandatory basis. Participants do not want the obligation to transmit corporate action election information to be placed upon them.

Our members also need additional detail on how the process of transmitting corporate action information would work.

As this is a 'nice to have' rather than a 'must have' feature, consideration could be given to introducing it after Release 2 in order to reduce the scope and complexity of Release 2 implementation.

CHES user interface

Questions 14 to 16

These questions relate to technical issues that are best answered by software providers.

Risk mitigation

Question 17 – which months should be avoided for CHES replacement Release 2 go-live?

Our members recommend that CHES replacement Release 2 go-live avoid the following months:

- January
- May
- June

- July
- December.

Our members' feedback is that ASX should consider implementing go-live over a long weekend or alternatively have a deferred settlement.

Question 18 – do you have further feedback on ASX's proposed implementation approach for Release 2?

Our members do not consider that a staggered implementation of Release 2 would be effective. The market requires immediacy. Our members do not want a process that requires them to operate two separate systems.

T+1

Question 19 – Are you supportive of a T+1 go live at least 12 months after Release 2 go-live date, and at a minimum 18 months after a decision to transition to T+1? Are there any other factors that ASX should consider regarding approach and timeline for a transition to T+1 settlement?

Our members are supportive of a T+1 go-live at least 12 months after Release 2 go-live, and at a minimum 18 months after a decision to transition to T+1. Our members' feedback is that from the time the decision to transition to T+1 settlement is made the industry will need a notice period of one-and-a-half to two years to allow for testing and automation.

Industry wide testing

We repeat the points made in answer to question 1.

Conclusion

If you require additional information or wish to discuss this submission in greater detail please do not hesitate to contact SIAA's policy manager, Michelle Huckel, whose contact details can be found in the covering email.

Yours sincerely



Judith Fox
Chief Executive Officer