GBST – Response to ASX consultation on CHESS Replacement

Q1. Are there any other key business functions provided by CHESS that have not been identified in this paper that should be supported by the system that replaces CHESS? Explain the importance and value of any such business functions to you.

The introduction of new clearing and settlement technology offers the opportunity to streamline existing processes, reduce costs and improve services to investors. Operational cost savings delivered by the new platform should justify the costs of implementing the new system.

Give Up / Take Up for cash market trades
Many institutional investors and their investment managers wish to choose between execution services offered by multiple brokers. Whilst this delivers efficiency in execution it can impose additional costs in settling the resulting trades. The ability to internally net settlements at the custodian or prime broker level also offers cost savings. It would also simplify the post-trade allocation / ETC workflows by reducing the number of counter-parties requiring instruction.

The addition of trade "give up / take up" capability for cash market executions offers an opportunity to reduce settlement costs by reducing the need for multiple settlements between the executing broker and the investor's custodian or prime broker. The functionality is currently offered for ASX derivatives; as such the industry is familiar with the process.

It would reduce settlement costs by allowing executions' clearing and settlement obligations to be transferred prior to netting. This removes the need for a DVP settlement between the executing and settlement participants. In addition to reduced message costs it would also simplify several workflows significantly.

Provision of functionality to manage commission due to executing brokers should be offered as an optional chargeable service, presumably the system currently being offered on ASX 24 would be suitable.

CA Election capture
Capture of corporate action elections is not currently automated to any significant extent; it is a significant cost for custodians to manage this process. Work arounds such as splitting holdings into multiple HINs as an aid to managing entitlements impose additional costs and complexity. CHESS currently supports the electronic maintenance of holder details; this would be an extension of that capability. The ability for brokers and custodians to notify elections electronically would provide an opportunity for significant savings across the industry. It would also offer full service retail brokers an opportunity to extend the services provided as part of their relationship with investors.

The solution should:
- Utilise a clear simple authority model – i.e. identifying who / what is entitled to lodge elections; this could be based on the existing sponsorship model.
- Offer support for multiple elections per holding which may be submitted over time e.g. as each beneficial owner notifies the custodian. Totals for each election type to be maintained by the CSD.
- Utilise ISO 20022 messages where ever possible.

The ability to store standing instructions at the holding level could also be considered.

Q2. What are your views on ASX implementing only a limited suite of business function and service enhancements in the replacement of CHESS, in order to minimise risk and disruption to the market?

Any solution which mandates the retention of two platforms with split responsibilities is unacceptable in other than the very short term (e.g. a maximum of a single settlement period plus a contingency for finalising the transition); as such the proposed system must support all functionality required for operations from day 1.

The additional risk of fragmenting processing by partial implementations should be evaluated along with the risk of implementing a comprehensive initial set of functionality.

Any reduction in functional scope must also remove the underlying need for the function or provide a workable alternative solution.

Q3. What are your views on each of the potential business functions and service enhancements identified in the paper for implementation with the replacement of CHESS?

Legal name on title throughout settlement and remove the need for a settlement accumulation HIN

Excellent – this capability has the potential to further reduce risk and simplify processing of retail transactions. It should deliver significant reductions in liquid capital requirements (S1) and reduce trust account balances.

The changes to CHESS processing which enabled sponsored settlements to be scheduled as part of the CHESS batch delivered this functionality for holdings on the CHESS sub-ledger. Extending the functionality to cover issuer sponsored settlements would standardise the work flows and deliver a higher level of investor protection.

Expand security encumbrance (non-transferable state) capability

Good – this capability should reduce risk and the resulting liquid capital requirements significantly for non-sponsored sells. It should deliver significant advantages and reduced risk in multiple areas. Additional benefits in collateral management should be achieved.

Provide settlement period choices

Unclear – is there evidence of significant demand for accelerated settlements? The cost of providing support for managing variable settlements at the transaction and operational levels could be significant; it should only be considered if a clear business case which justifies the costs of implementation and operations is identified.

To minimise costs the option for a participant to only provide fixed settlements should be supported.

Real-time data and service access via an application programming interface (API)

Unclear – how does this differ from the existing CHESS reporting function? The level of benefit realised would depend on the API – what would it support and how would it be accessed? Methods and costs of access should also be clarified e.g. per report, per API function usage etc.

Q4. Would you expect the business functions and service enhancements identified in the paper to provide a net benefit to your organisation, and if so, how would you categorise the significance of the net benefit - small / medium / large? If possible, please provide a quantification of any net benefit.

N.A. – Not a participant.

Q5. Are there other business functions and service enhancements that are consistent with ASX's guiding principles that have not been identified and which you think should be considered as part of the replacement of CHESS?

See Q1, the ASX stated aim to reduce industry costs aligns with the reduction in settlements performed.

Q6. Are there any non-functional requirements or connectivity models you would like ASX to consider for the replacement of CHESS?

The new platform should support multiple competitive connectivity options as a means of controlling costs.

Q7. Would you expect the adoption of ISO 20022 messaging standards to provide a net benefit to your organisation? If so, how would you categorise the significance of the net benefit – small / medium / large? If possible, please provide a quantification of the expected costs and benefits of the implementation of ISO 20022 messaging standards.

The cost savings delivered by use of ISO 20022 will vary based on the level of market specific modifications to the basic set. Whilst there will be savings through the use of ISO 20022 toolkits etc. these represent a small part of the overall costs of implementing a new protocol. If the new protocol maps to CHESS at a functional level the cost to implement it will be reduced.

If, however, the new protocol introduces significant changes or additions to existing workflows the savings through using ISO 20022 will be small compared to the overall costs of implementation.

Q8. How important is it to your organisation that ASX continues to support CHESS messaging for a period of time to allow for your organisation's transition to ISO 20022 standards?

If there was a long term commitment by the ASX to offer CHESS connectivity the case for implementing ISO 20022 would be reduced. In that case GBST development would be driven by participant demand for the new protocol.

Q9. ASX currently supplies and supports two client-side CHESS messaging gateways – CHESS PC and CHESS Access. Are you a user of either of these services? If so, which gateway do you use?

No – GBST offers competing products used by a significant proportion of participants.

Q10. If you are a user of CHESS PC or CHESS Access, would you be seeking continuation of this gateway service from ASX (for either CHESS or ISO 20022 message suites)?

GBST will continue to offer both standalone and integrated connectivity solutions for the new platform.

Q11. Does your organisation have the capability to support and migrate to ISO 20022 messaging now? If yes, what business categories do you use? If your organisation does not currently have this capability, does it have plans to implement it in the near to medium term?

Support for ISO20022 is part of the GBST forward plan, actual development timeframes will be based on the introduction of the ASX CHESS system replacement or client demand (none to date).

Development without knowledge of the specific messages and formats to be used by ASX would result in rework and additional costs, as such release of the specifications for the new protocol is required prior to planning development timeframes.

The adoption of a new protocol has 2 main requirements:

- Communication – this should be relatively straight forward given the nature of ISO20022 and the wide availability of systems and development tool kits
- Business processing – implementing the business logic required to process the messages and integrate them into specific workflows will form the majority of the effort; this cannot be estimated or developed without knowledge of both the intended usage and content of messages within a specific context e.g. the Australian equities market.

Q12. If ASX was to mandate the use of ISO 20022 securities messaging, how long would your organisation need to migrate to ISO 20022?

Implementation timeframes will vary with the extent of new functionality and workflows delivered by the new platform. Given that the introduction of the platform will be the largest change to cash market clearing and settlement in over 20 years a minimum timeframe of at least 2 years from the release of final specifications would be appropriate.

Q13. Do you have a preference about the approach to the implementation of ISO 20022 messaging - for example, a big bang approach or per business function or other?

Given the scale of the implementation it should be made during a period where no other major system projects are being implemented e.g. a new trading system or a change to the derivatives clearing system.

Any significant requirement to run multiple clearing and settlement systems (which use different protocols and workflows) will greatly increase implementation costs. In order to minimise costs a "big bang" approach will be required. This would, however, mandate that system test facilities are comprehensive to allow for a full validation of new functionality prior to go-live. A comprehensive accreditation process should also be included.

Ideally the new environment should start "clean" – i.e. without positons transferred from the old system. Ideally all obligations in the old environment would be settled in the old environment, this greatly simplifies the cutover process and reduces reconciliation costs.

Q14. Does your organisation have a preference for the network used for ISO 20022 messages - for example, SWIFTNet, ASX Net or other?

N.A. – Participant choice.

Q15. Please provide your views on the potential enhancements and new services identified in this paper. Would these enhancements and new services be beneficial to your organisation?

See Q3.

Q16. Please outline any additional significant functional enhancements and new services that your organisation thinks should be considered.

See Q1.

Q17. Do you have any other comments on the matters discussed in this paper?

No

Contact:

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