

# CHESS

CLEARING HOUSE ELECTRONIC SUBREGISTER SYSTEM



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## What is CHESS?

If you buy or sell financial products such as shares in a listed company, you must exchange the title or legal ownership of those financial products for money. This exchange is called settlement.

For financial products traded on the Australian Securities Exchange, settlement is effected by a world-class computer system called CHESS, which stands for the Clearing House Electronic Subregister System.

CHESS is operated by the ASX Settlement Pty Limited (ASX Settlement), a wholly owned subsidiary of the ASX. ASX Settlement authorises participants such as brokers, custodians, institutional investors, settlement agents and so on to access CHESS and settle trades made by themselves or on behalf of their clients.

Usually, two business days after a buyer and seller agree to a trade, CHESS effects the settlement of that trade. It does this by transferring the title or legal ownership of the shares while simultaneously facilitating the transfer of money for those shares between participants via their respective banks. This type of settlement is called Delivery versus Payment (DvP). It is irrevocable.

In addition to performing settlement, CHESS electronically registers the title (ownership) of shares on its subregister. This registration is secure and is an efficient means for holders to register title of their shares if they intend to trade them.

In summary, CHESS performs two major functions for ASX.

- It facilitates the clearing and settlement of trades in shares, and
- It provides an electronic subregister for shares in listed companies.

CHESS performs these and other functions for a diverse range of financial products, including shares. To make it easier to read, this brochure talks about shares. However, most of what it says also applies to the other types of financial products approved for settlement via CHESS, including warrants, stapled securities, company issued options and units in trusts.

## **What benefits does CHESS offer investors?**

CHESS benefits investors by providing a means of transferring and registering ownership of shares that is:

- secure
- efficient
- convenient
- seamless, and
- cost effective.

## **Do I have a choice of where I register title to my shares?**

Yes. As a shareholder, you can choose to register the legal title to your shares on either the:

- CHESS subregister, maintained by ASX Settlement, or
- Issuer Sponsored subregister, maintained by the company who issued the shares. Most companies engage a share registry to administer their subregister on their behalf.

Registration in both subregisters is by electronic means. No paper certificates are issued for either subregister. However, a few foreign companies listed on the ASX may still offer paper certificates.

The principal register for any particular company is made up of the combined holdings registered on both the CHESS subregister and Issuer Sponsored subregister.

Irrespective of which subregister you use to hold shares, you will need to go through a stockbroker if you want to trade them.

## **How do I register my shares on the CHESS subregister?**

To register your shares on the CHESS subregister, you arrange with an authorised participant (usually your stockbroker or their settlement agent) to sponsor you on CHESS. This 'CHESS Sponsor' will ask you to sign a sponsorship agreement that sets out the terms and conditions under which they can operate your holdings on the CHESS subregister on your behalf. This in no way changes your legal ownership of the shares.

CHESS shareholders are allocated a Holder Identification Number (commonly referred to as a HIN), which is similar in concept to a bank account number. Your HIN uniquely identifies you as the holder of shares on the CHESS subregister. Following your registration, ASX Settlement will send you a notification of your HIN. Keep this notification in a safe place as a record of your sponsor and your HIN. You should protect your HIN in the same way you protect your bank account number and not disclose it to anyone, unless required to do so in the normal course of business or by law.

If you wish, you may enter into a sponsorship agreement with more than one CHESS Sponsor. If you do, you will have a different HIN for each of your CHESS Sponsors.

## How do I register my shares on the Issuer Sponsored subregister?

If you do not have a CHESSE sponsorship agreement with your stockbroker or have not provided the stockbroker purchasing shares for you with a HIN, your shares will be registered on the Issuer Sponsored subregister by default.

You do not require a formal sponsorship agreement with a company to register your shares on their Issuer Sponsored subregister.

For each Issuer Sponsored holding, you will be allocated a unique Securityholder Reference Number (also known as an SRN) by the relevant issuer. Your SRN uniquely identifies your holding on the Issuer Sponsored subregister. Unlike a HIN, your SRN will not identify any holdings on the CHESSE subregister. Also, unlike a HIN, you will have a different SRN for each holding.

## Who controls the transfer or movement of shares?

If you hold your shares on the CHESSE subregister then your CHESSE Sponsor controls the transfer or movement of shares to or from your CHESSE Sponsored holdings, but may only do so if following your specific instructions. This is explained in your sponsorship agreement.

If you hold your shares on the Issuer Sponsored subregister and want to sell them, your stockbroker must convert them to the CHESSE subregister in order to settle the trade.

To facilitate this, you must provide your stockbroker with the relevant details, including the SRN.

In addition to movements initiated by stockbrokers on your instructions, the share registry may, from time to time, adjust your holding on either subregister. These adjustments are usually to effect corporate actions such as a company issuing bonus shares.

You will be notified of any changes to your share holdings by a holding statement mailed to your registered address. For shares on the CHESS subregister, this is done by ASX Settlement. For shares on the Issuer Sponsored subregister, this is done by the share registry of the relevant company.

### **What are the main differences between the CHESS subregister and the Issuer Sponsored subregister?**

On the CHESS subregister you have only one HIN (for each CHESS Sponsor) that identifies all of your holdings in all of the companies you have invested in. As most shareholders have only one CHESS Sponsor, one HIN identifies their entire portfolio.

On the Issuer Sponsored subregisters, you have one SRN for each holding. If you have a portfolio of shares you will have a number of SRNs, one for each company you have invested in.

To hold shares on the CHESS subregister you must have a formal sponsorship agreement with a CHESS Sponsor. No formal agreement is required for you to hold shares on the Issuer Sponsored subregister.

To change your registration name, address, or notification of Tax File Number for your shares on the CHESS subregister, you need to contact only your CHESS Sponsor. For shares on the Issuer Sponsored subregister, you need to notify the share registry of each company in which you hold shares.

## Should I hold my shares on the CHESSE subregister or the Issuer Sponsored subregister?

If you hold your shares on the Issuer Sponsored subregister and wish to sell them, you must advise your stockbroker of the share registration details, including the SRN, so your stockbroker can convert the shares from the Issuer Sponsored subregister to the CHESSE subregister in order to settle the trade. This conversion must be completed in time for settlement or else the stockbroker will incur a fee, which they may pass on to you. Currently the time to settle a trade is T+2 or trade date plus 2 business days.

If you hold your shares on the CHESSE subregister and you wish to sell them, your CHESSE Sponsor can move your shares for settlement without the need of a conversion. This is both easy and efficient.

Taking this into account, some of the factors you might consider when deciding which subregister to hold your shares on include:

- Issuer Sponsored shareholders may be inconvenienced by the need to communicate precise details of their holdings to their stockbrokers and bear the risk of incurring fees if a conversion from the Issuer Sponsored subregister is not completed in time for settlement;
- CHESSE Sponsored shareholders enjoy hassle-free settlement and are not exposed to the risk of incurring fees arising from a failed settlement;
- Investors dealing with more than one stockbroker may experience settlement delays and possible fees when securities are transferred between different stockbrokers for settlement. Such investors may consider discussing these aspects further with their stockbrokers.

## Are the shares I hold on the CHESS subregister safe?

Yes, your shares are safe for the following reasons:

- Transactions on a CHESS holding can only be effected by the CHESS Sponsor. By law your CHESS Sponsor may access your CHESS holding only when you have given them specific instructions to do so. Your CHESS Sponsor must authenticate your identity when you give them instructions. We suggest that you check that your stockbroker has adequate security measures in place to ensure that when you call they can verify your identity, for example by means of a password or PIN.
- The Corporations Act and the ASX Settlement Operating Rules regulate the actions of all ASX Settlement participants, such as stockbrokers, and what sort of transactions they can perform against the CHESS subregister.
- ASX audits ASX Settlement participants to ensure they comply with ASX Settlement Operating Rules and relevant legislation.
- ASX Settlement notifies you by mail of any change to your holdings on the CHESS subregister. To maximise the security of your holdings, make sure you register them using your direct address rather than an address 'care of' an intermediary, thus ensuring you receive all such notices directly.
- Your CHESS Sponsor must keep an electronic audit trail of all movements in your CHESS holding.
- ASX Settlement has implemented a range of security measures to minimise unauthorised access to CHESS, including message encryption and the limiting of each CHESS user's access to a specific and secure telecommunications line.

## Are there protections against loss?

Yes. The National Guarantee Fund (NGF) is a compensation fund that covers losses in certain categories related to activities of ASX Market Participants, such as failure to complete a transaction, the unauthorised transfer of securities or failure to deal with property entrusted to the Market Participant where the Participant becomes insolvent. Compensation is not available for losses arising from normal trading. For more information about the NGF and the specific events it is legislated to cover, see the website of the fund's trustee ([www.segc.com.au](http://www.segc.com.au)).

## When will I receive CHESS Holding Statements?

ASX Settlement issues CHESS Holding Statements at the end of each month in which a transaction has occurred for a particular holding.

A CHESS Holding Statement shows the opening and closing holding balances of the holding for the statement period as well as listing any CHESS transactions that have occurred.

Statements are issued directly by ASX Settlement on behalf of each company. Separate statements are issued for each security. A statement is only issued when there has been a transaction during the month.

ASX Settlement does not issue routine CHESS Holding Statements for holdings of renounceable rights. However, a transaction statement for these securities may be provided if you request it through your CHESS Sponsor or the share registry.

You can request a CHESS Holding Statement at any time through your CHESS Sponsor. Your CHESS Sponsor may charge for this service.

## Why are notices sent to me?

ASX Settlement sends you notices to inform you of any changes to your registration details or any change to your holding that is not covered by the routine holding statements. Some of the types of notices you may receive include:

- Change of name and/or address
- Change of sponsor
- Takeover offer acceptance
- Buyback offer acceptance, and
- Collateral reservation.

## Can I have a relationship with more than one CHESS Sponsor?

Yes. There are several ways in which you can manage a relationship with more than one CHESS Sponsor:

- Establish a separate sponsorship agreement with separate stockbrokers and operate separate portfolios by always selling shares through the stockbroker who bought them for you. You will need to manage a HIN for each stockbroker.
- Establish sponsorship through one stockbroker (your CHESS Sponsor). If you trade through another stockbroker, advise that stockbroker of your sponsorship arrangements and instruct them to transfer your shares to or from your CHESS Sponsor. You must also instruct your CHESS Sponsor to deliver or receive the shares as a result of the trade. Your CHESS Sponsor may charge a fee for this.
- Appoint a non-broker such as a trustee company or margin lender as your CHESS Sponsor. When you trade with a stockbroker, instruct them to settle into your HIN with your CHESS Sponsor.

## Can I move my CHESS holdings between CHESS Sponsors?

Yes. You can move either your entire CHESS holding or part of your CHESS holding from one CHESS Sponsor to another. If you are moving your entire CHESS holding, you should be able to keep the same HIN.

## How do I change my name and/or address in CHESS?

To change your registered name and/or address, contact your CHESS Sponsor and provide them with the details and the paperwork necessary to verify the changes. Your CHESS Sponsor makes the changes in CHESS. You cannot change these details through the Share Registries. Once the changes are effected, ASX Settlement will mail you a CHESS notice confirming your new details.

## How do I convert shares from the Issuer Sponsored subregister to the CHESS subregister?

To convert shares from the Issuer Sponsored subregister to the CHESS subregister:

- Enter into a sponsorship agreement with your chosen CHESS Sponsor. You will be allocated a HIN.
- Give your CHESS Sponsor the details of your Issuer Sponsored holdings, including the SRNs of the Issuer Sponsored holdings, and instruct them to move these holdings onto the CHESS subregister. Remember, your SRN can be found on your Issuer Sponsored holding statements.

Your CHESS Sponsor will convert your Issuer Sponsored holding to the CHESS subregister. ASX Settlement will confirm the conversion by mailing you a CHESS Holding Statement for each security transferred.

## How do I convert a CHESS Sponsored holding to the Issuer Sponsored subregister?

To convert a holding to the Issuer Sponsored subregister, give appropriate instructions to your CHESS Sponsor, who will arrange the conversion. Your sponsor may charge a fee for this service.

## How can I affect an 'off-market' transfer?

If you are sponsored in CHESS and wish to transfer your shares to another party 'off-market' (perhaps to gift them to someone), either:

- Instruct your CHESS Sponsor to make an off-market transfer of the shares to the other party; or
- Instruct your CHESS Sponsor to convert the shares to the Issuer Sponsored subregister. When this is done, complete an Australian Standard Transfer form, available from the share registry, to effect the transfer from your Issuer Sponsored holding.

For more information, ask your CHESS Sponsor.

## How can I pledge my shares as collateral for a loan?

There are several ways of pledging your shares as collateral:

- If your lender also has access to CHESS, they may act as the CHESS Sponsor of the shares you wish to pledge
- You might transfer the shares into the name of your lender's nominee company, or
- Establish a three-way agreement between yourself, your CHESS Sponsor and the lender whereby the CHESS Sponsor agrees not to transfer the shares without the lender's authority.

## **If I have a query about my holding, who do I contact?**

As a CHESS Sponsored shareholder, your first contact for any enquiry should be your CHESS Sponsor. This includes queries into transactions on your CHESS Holding Statement and any queries regarding your registration name and address on CHESS.

If you have a query related to matters handled by the share registry, for example dividend reinvestment participation, rights acceptance, dividend payment instructions, etc., you may need to contact the relevant share registry. However, your CHESS Sponsor is advised of any changes to your holding initiated by the share registry, so they may be able to answer your query themselves.





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