



ASX

AUSTRALIAN SECURITIES EXCHANGE

# CHESS

Understanding CHESS Depository Interests



## Introduction

The Clearing House Electronic Subregister System (CHES) is an ASX computer system that manages the settlement of transactions executed on the Australian Stock Exchange. Additionally, CHES facilitates the paperless transfer of legal title to ASX quoted financial products.

However, CHES cannot be used directly for the transfer of financial products of issuers domiciled in countries whose laws do not recognise uncertificated holdings or electronic transfer of legal title ("foreign financial products"). To overcome this difficulty, ASX developed a type of depositary receipt known as a CHES Depositary Interest ("CDI").

CDIs allow Investors to obtain the economic benefits of foreign financial products without actually holding legal title to those financial products. CDIs also enable Investors to hold and transfer their interests in foreign financial products electronically via CHES, which they would be unable to do if they held the foreign financial products directly.

Depositary receipts are found in some other jurisdictions, for example American Depositary Receipts (ADRs) in the United States of America however ASX CDIs are different from other forms of depositary receipts. This booklet describes the key features of ASX CDIs.

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## What are CDIs?

A CDI is a financial product quoted on the Australian Stock Exchange that confers a beneficial interest in the foreign financial product to which it relates. For example, if a foreign company issues CDIs in respect of its shares, the holders of the CDIs obtain “beneficial ownership” of those foreign financial products. The main difference between holding CDIs and holding foreign financial products directly is that you have beneficial ownership of the equivalent number of foreign financial products instead of legal title. Legal title to the foreign financial products is held by a nominee company on behalf of CDI holders.

Are there different types of CDIs?

There are two types of CDIs:

- CHESS Units of Foreign Securities (“CUFS”), which are issued in respect of foreign equity securities; and
- Depository Interests (“DIs”), which are issued in respect of bearer securities (such as debt) or where the securities are held in another settlement and depository system.

The term “CHESS Depository Interests” (or “CDIs”) is a collective term that may be used to refer to CUFS or DIs or both. Whether you hold CUFS or DIs, you derive your beneficial interest in the relevant foreign equity, debt or other securities through one or more nominee companies, known as depository nominees.

## **CHESSE Depository Nominees services**

CHESSE Depository Nominees Pty Limited (“CDN”) is a wholly owned subsidiary company of Australian Stock Exchange Limited that was created to fulfil the functions of a depository nominee. CDN can be appointed by any foreign issuer to hold legal title to foreign financial products on behalf of CDI holders for their benefit. CDN is a participant in the clearing and settlement facility operated by ASX Settlement and Transfer Corporation Pty Ltd (“ASTC”). Whilst CDN is often selected as the nominee for ASX CDIs, a foreign issuer may appoint another company as its depository nominee.

## What entitlements do my CDIs have?

With the exception of voting arrangements and some corporate actions of foreign issuers domiciled in certain jurisdictions (explained below), as a CDI holder you have the same rights as holders whose financial products are legally registered in their own name. This means that all economic benefits such as dividends, bonus issues, rights issues or similar corporate actions flow through to you as if you were the legal owner of the corresponding foreign financial product.

In relation to corporate actions such as bonus issues, rights issues and capital reconstructions, CDI holders will generally receive equal treatment to that of holders whose financial products are legally registered in their own name. This is because foreign issuers are generally required to treat CDI holders as though they were the legally registered holders of the corresponding foreign financial products.

However, the laws of some countries may not permit foreign issuers incorporated there to treat CDI holders

as though they were the legally registered holders of the corresponding foreign financial products for all purposes. For example, such laws may require the foreign issuer to treat the depositary nominee's holding of foreign financial products as a single holding, rather than as a number of smaller separate holdings corresponding to the individual interests of CDI holders, for the purposes of certain corporate actions.

The effect of such laws is that, on bonus issues, rights issues and other corporate actions (such as share consolidations), marginal differences may exist between the resulting entitlements of CDI holders and the entitlements they would have accrued if they held foreign financial products directly.

## Examples of differences in entitlements

Such differences may exist when fractional entitlements arising on a share consolidation are rounded. If the fractional entitlements are to be rounded up, and

the laws applicable to the foreign issuer require it to treat the depositary nominee's holding as a single, undivided holding, then CDI holders will not benefit to the same extent from the rounding up of fractional entitlements than if they held foreign financial products directly.

The difference will exist because any fractional entitlement arising in respect of the depositary nominee's single, consolidated holding is rounded up only once; on the other hand, if CDI holders were treated as though they held foreign financial products directly, fractional entitlements arising in respect of each of their notional holdings

of foreign financial products would be rounded up, leading to a greater aggregate rounding up for CDI holders.

Any such differences in entitlements will be explained to CDI holders by the relevant foreign issuers. ASX operating rules require foreign issuers to minimise such differences where legally permissible.

In relation to a takeover offer for any of the foreign issuers in which the depositary nominee holds foreign financial products, the depositary nominee may only accept the offer where you instruct it to do so and it must ensure that the offeror processes your takeover acceptance.

In relation to meetings of a foreign issuer, you will be given notice of any meeting of a class of holders applicable to you. The notice must include a form permitting you to direct the depositary nominee to cast proxy votes

in accordance with your written directions. Unless the laws of the jurisdiction in which the foreign issuer is established permit it, you cannot vote personally at a meeting of holders. If you wish to vote personally, you must first convert your CDIs into the underlying foreign financial products in sufficient time before the meeting to enable you to vote personally.

## How do I know if a quoted financial product is a CDI?

A financial product is a CDI if the ASX official description contains a reference to “CHESS Depository Interest” or “CDI”. For example, “NWS, Class B Common Voting Stock – cdi” refers to CDIs issued by News Corporation in respect of its Class B Common Voting Stock and listed on the Australian Stock Exchange.

Your broker can provide you with a current listing of CDIs.

## Can I convert my CDIs?

You may choose either to leave your holdings in the form of CDIs (so that legal title remains in the name of the depository nominee) or convert the CDIs into financial products (so that you can hold legal title in your own right). If you wish to convert your CDIs to underlying financial products, you should either contact the foreign issuer’s Australian registry if you hold issuer sponsored CDIs, or your Broker (referred to in CHESS as your Sponsoring Participant) if your CDIs are held on the CHESS subregister.

You may also wish to convert your underlying financial products to CDIs. If so, you should contact the foreign issuer’s share registry, or if you wish to be sponsored

in CHESS, your Broker for assistance. The underlying financial products will then be transferred from your name into the depository nominee’s name and a CDI holding will be established in your name.

CDIs can be issued on a ratio basis whereby each CDI represents a multiple or a fraction of the underlying foreign financial products. The number of CDIs or foreign financial products that you receive upon conversion of one form

of financial product to the other is determined by the applicable ratio.

## **How will I know what's happening with my CDIs?**

Under the operating rules of ASTC's settlement facility, the depositary nominee has appointed each foreign issuer as its attorney to carry out the functions of the depositary nominee in order to give full effect to all of the depositary nominee's rights and obligations in respect of the CDIs issued by the foreign issuers. This means that the foreign issuer, usually through its share registry, will communicate directly with you when processing corporate actions such as dividends, bonus issues and rights issues and when sending notices and announcements, such as notices of meetings of holders. Any enquiries on such matters should be directed to the relevant share registry or your Broker.

## **Do I get CHESS Statements for CDIs?**

Security Holders who are sponsored by Participants in CHESS and who have chosen to hold their foreign financial products as CDIs will receive CHESS Holding Statements similar to those for direct holdings each time there is a movement of securities on that holding.

CDI holders who are Issuer Sponsored will receive uncertificated holding statements from the company's Australian registry.

## **Am I covered by the National Guarantee Fund?**

As a holder of CDIs, you may be entitled to make a claim on the National Guarantee Fund (NGF) where any of the circumstances set out in Part 4 of Division 7.5 of the Corporations Act apply to you.

**Who do I contact?**

For more information on CDIs contact your Broker or call ASX customer service on 131 279.

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