

ASX

# CHES Replacement

Business Design Working Group –  
SRN Enquiries & Issuer Sponsored Holdings

28 February 2024





**ASX acknowledges the  
Traditional Owners of  
Country throughout Australia.  
We pay our respects to  
Elders past and present.**

**ARTWORK BY:** Lee Anne Hall, My Country My People





# Housekeeping

## Troubleshooting

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  - Phone Conference ID: 383 140 047#
  
- > Presentation materials were distributed before the meeting and will be published on the website

# Important Information

## Competition Law Reminder

- > Workshop members are reminded to have regard to their obligations under competition law. In particular, please note that the Competition and Consumer Act prohibits a corporation from engaging with one or more persons in a concerted practice that has the purpose, effect or likely effect of substantially lessening competition.

# Agenda

01 – Agenda and Workshop Objectives

02 – Recap of Scope Objectives and Prior Survey

03 – Rejection Statistics and Reasons

04 – User Journeys

05 – Suggested Improvements

06 – Next Steps

# 01 – Agenda & Objectives

# 01 – Introduction

## Detailed workshop agenda

Topic	Duration
<b>Introduction</b> - Workshop objectives and outputs	20 mins
<b>Scope Objectives &amp; Survey Recap</b>	20 mins
<b>Rejection Statistics &amp; Reasons</b>	20 mins
<b>Break</b>	15 mins
<b>User Journeys</b>	30 mins
<b>Suggested Improvements</b>	30 mins
<b>Next Steps</b>	15 mins
<b>Total workshop duration</b>	<b>2.5 hours</b>

# 01 – Workshop objectives

## Key Objectives and outputs

The purpose of the BDWG is to achieve broad consensus on additional scope for CHES Replacement and to develop the Business Design Document for each objective.

### Objectives

- Collect advice and expertise to understand industry needs in relation to Issuer Sponsored workflows
- Identify pain points in relation to Issuer Sponsored and SRN related workflows
- Agree on any proposed solutions in the context of Release 2, including any next steps.

### Outputs

- Business Design Document that includes:
  - Functional outcomes
  - Process Flow (high level)
  - Access channels (e.g. User Interface, ISO20022 messaging)
  - Any non-functional considerations
  - Any other considerations

The outcomes of a BDWG are not a commitment to scope and do not represent the final design of the system. The outcomes of the BDWGs will be used as input in assessing industry requirements and are subject to further consultation, legal and regulatory assessments.





## **02 – Scope Objectives & Survey Recap**

# 02 – Scope Objectives & Survey

## Recap – Canvas Summary SRN Enquiry and Validation

### 1.3 SRN Enquiry and Validation

Implement a faster and more efficient SRN enquiry process

#### Problem

- Unclear and inconsistent approaches to SRN enquiry and validation rules across the industry, resulting in false rejections.
- Strict matching criteria that requires exact CHES registration details make it difficult for brokers to retrieve SRNs.
- Inability to make enquiries on delisted securities.
- Participants initiating 007 or 011 messages (CHES to Issuer transfer/conversion) are often unable to obtain the SRNs immediately. There can be a delay of up to 24 hours, which can inhibit settlement and/or other business processes.
- Multiple messages are required for SRN and balance enquiries, and SRN enquiry messages don't allow multiple SRNs to be returned.
- Limitations in the message has resulted in incorrect information in the SRN enquiry response including balances that include locked/restricted holdings.

#### Industry Proposed Solution

- Standardise, document and get industry agreement on registries matching rules to improve response rates and improve market clarity.
- Registries to return exact registration details or provide more information regarding the search error (provided it does not enable phishing of SRNs and SRN details).
- Standardise the validation and matching criteria between all Registries.
- Reduced SLAs for response times, where practical/viable.
- Expand SRN enquiry message to permit bulk/multiple requests.
- Extend SRN responses to include additional supplementary information (e.g. available, locked and total holdings).

#### Business Benefits & Risks

##### Business Outcomes/Benefits

- Remove friction for Participants wish to transfer/convert holdings between sub-registers.
- Reduce rejection rates for issuer conversions.
- Reduce duplicate issuer sponsored holder records.
- Timely creation of SRN for cross border transfers.

##### Risk/Challenges

- Controls need to be in place to protect against broad matching and SRN phishing.

# 02 – Scope Objectives & Survey

## Recap – Canvas Summary Issuer Sponsored Holding Locks

### 1.4 Issuer Sponsored Holding Locks

Reduce settlement risk in relation to issuer sponsored sales

#### Problem

- Brokers do not have line of sight of any issuer sponsored holding locks and do not know until the transfer request is rejected. This impacts settlement and may result in fail fees.
- Brokers will only transfer stock into the accumulation HIN upon a trade, there is risk associated with uncoordinated timings between issuer/broker sponsored settlements.

#### Proposed Solutions

- Permit a broker to request a temporary lock on Issuer Sponsored Holdings.
- Give brokers visibility on locks that apply to SRN holdings.

#### Business Benefits & Risks

##### Business Outcomes/Benefits

- Reduce risk in relation to Issuer Sponsored Sales
- Greater alignment in processes between CHES and Issuer sponsored securities.

##### Risk/Challenges

- Design considerations to consider:
  - Would it anticipate immediate 'give-up' of the stock be required?
  - Would the holding lock be lifted and transfer affected before batch settlement?
  - Would it compress the time the Registries have to affect the movement of shares?
  - How long would the lock exist?
- Brokers need an agreement to take stock on before settlement and taking ownership until settlement (e.g. corporate actions, updates).

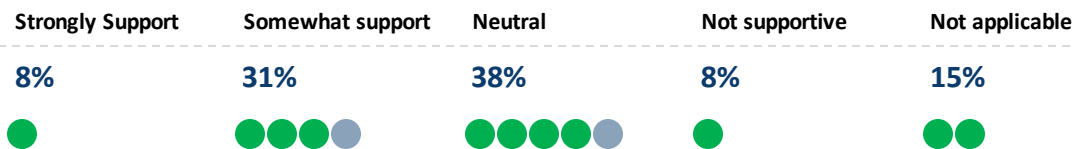


# 02 - Previous Survey Playback

## Issuer Sponsored Holdings

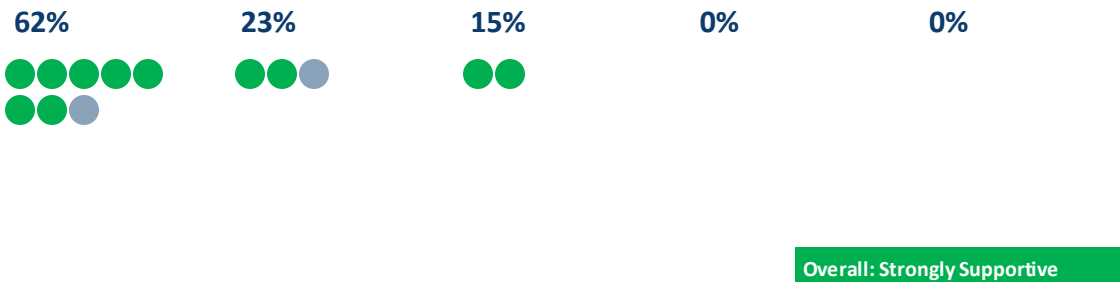
### Holding Locks

Do you support the ability for Settlement Participants to apply temporary locks on issuer sponsored securities to improve the process of stock delivery for issuer sponsored securities on settlement?



### SRN Enquiry

Have you identified inefficiencies with, and/or do you support improvements to, the current SRN enquiry and SRN balance enquiry process(es)?



## Insights

### Holding Locks

- Reduce credit counterparty risk. Assist with confirming stock available to prior to settlement. Reduces client property held.
- This would be useful however volumes are very low.
- Issuer Sponsored settlement is always a risk unless it is in line with broker sponsored (i.e. scheduling settlement, locking etc)
- Managed via internal processes

### SRN Enquiry

- An enquiry function into an Issuers register of members should be available for ASX Participants
- Standardise formats and ability to search relevant fields rather than performing an exact match
- Problematic where multiple holdings on single Issuer Sponsored register exists with the same registration details.
- Ability to run a report to return all SRN holdings based on registered name and address.
- There are some participants still requesting SRN information by using the SRA Form 12A. There are risks associated with use of this form including fraud. Mandatory use of the message-based enquiry would remove that risk.
- A single message would be beneficial which would include the SRN and the Balance but for rejections must provide the registration details if mis match or allow more near match (i.e. more thought on "exact match")

# 02 - Previous Survey Playback

## Sub-register and issuer sponsored enhancements

### Question 1.3

#### SRN Enquiry & Validation

Implement a faster and more efficient SRN enquiry process

#### Recommendation

Strongly Support

59%



Somewhat support

13%



Not supportive

6%



Not Relevant/ N/A

22%



Overall: Strongly Supportive

#### Organisation Impact

High

38%



Medium

31%



Low

16%



Not applicable

16%



Overall: High

#### Priority

High

31%



Medium

34%



Low

19%



Not applicable

16%



Overall: Medium

### Insights

#### Recommendation

- Ability to query SRN without the need of exact spacing and wordings of registration details.
- Standardisation will reduce the risk of rejection when a conversion between sub-registers is requested and reduce the instances of duplicate issuer sponsored holder records being created due to difference in registration details.

#### Organisational Support

- If the SRN Enquiry were to support multiple responses to identify where multiple SRNs match an account, this would be helpful.
- Registries to be consistent with issuing SRNs - some issue a new SRN with every purchase.
- Absolutely should all move to an electronic solution for enquiry and not have the 12A form.

#### Priority

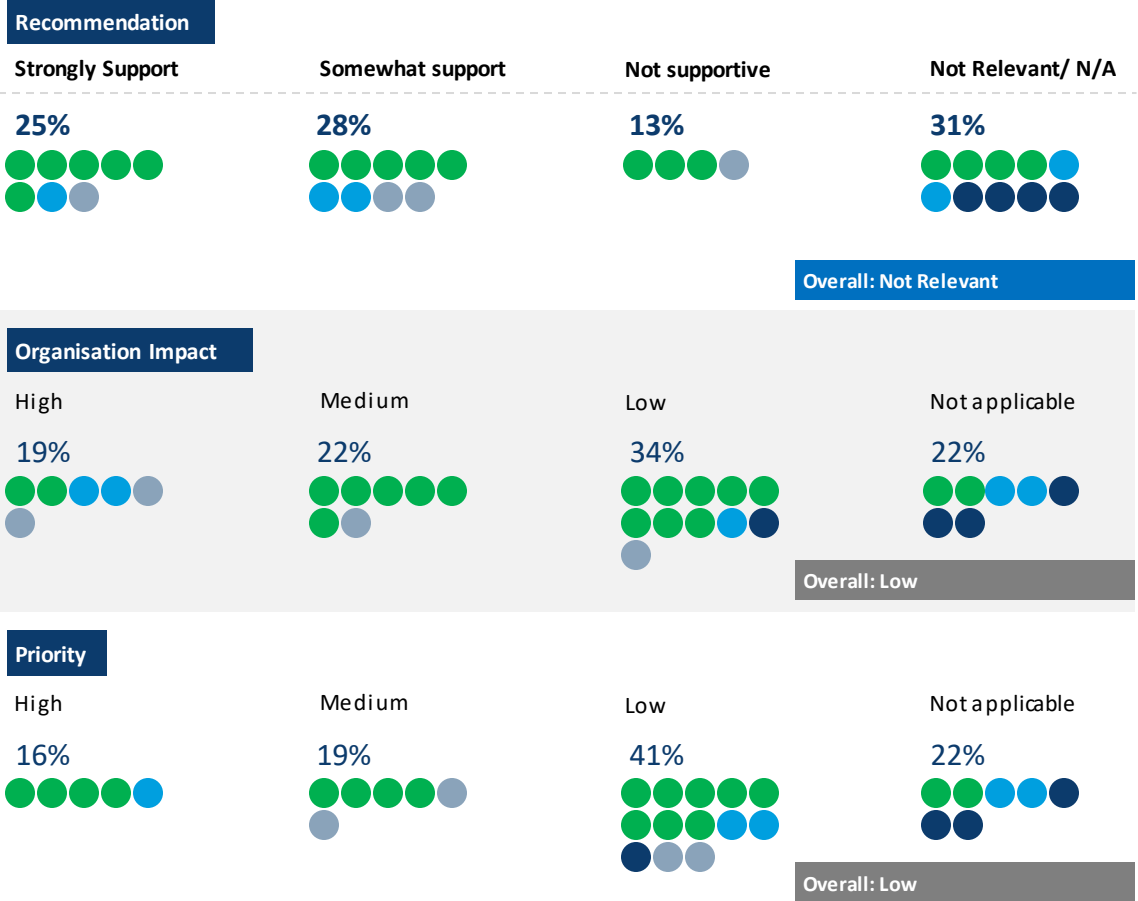
- Preference to be done in current CHES. Agree the industry needs to sit down and standardise the formats for consistency.
- We support improvement with efficiency & timeliness to SRN processing especially in relation to cross border movements. We believe this should be considered as part of day 1 CHES Replacement go live.

# 02 - Previous Survey Playback

## Sub-register and issuer sponsored enhancements

### Question 1.4

**Issuer Sponsored Holding Locks**  
Reduce settlement risk in relation to issuer sponsored sales



### Insights

#### Recommendation

- There already exists the ability for a selling participant to transfer the securities out of a seller's holding as soon as the sale has been executed. Potentially expand this ability to enable the transfer to take place as soon as the order has been placed, thereby removing any need for a lock.
- Need for Registries to clearly identify tradeable balance on holdings as holding locks are frequently placed on Issuer holdings but not visible, leading to failure to deliver on sales.

#### Organisational Support

- We have been caught out here a few times in the past - have validated the SRN - and then sold the shares only to find that the issuer holding is locked due to unauthorised access.

#### Priority

- We are in principle supportive of measures that simplify or streamline systems or processes or improve timeliness or accuracy of data. Minimising differences between issuer-sponsored and other settlements is a high priority.

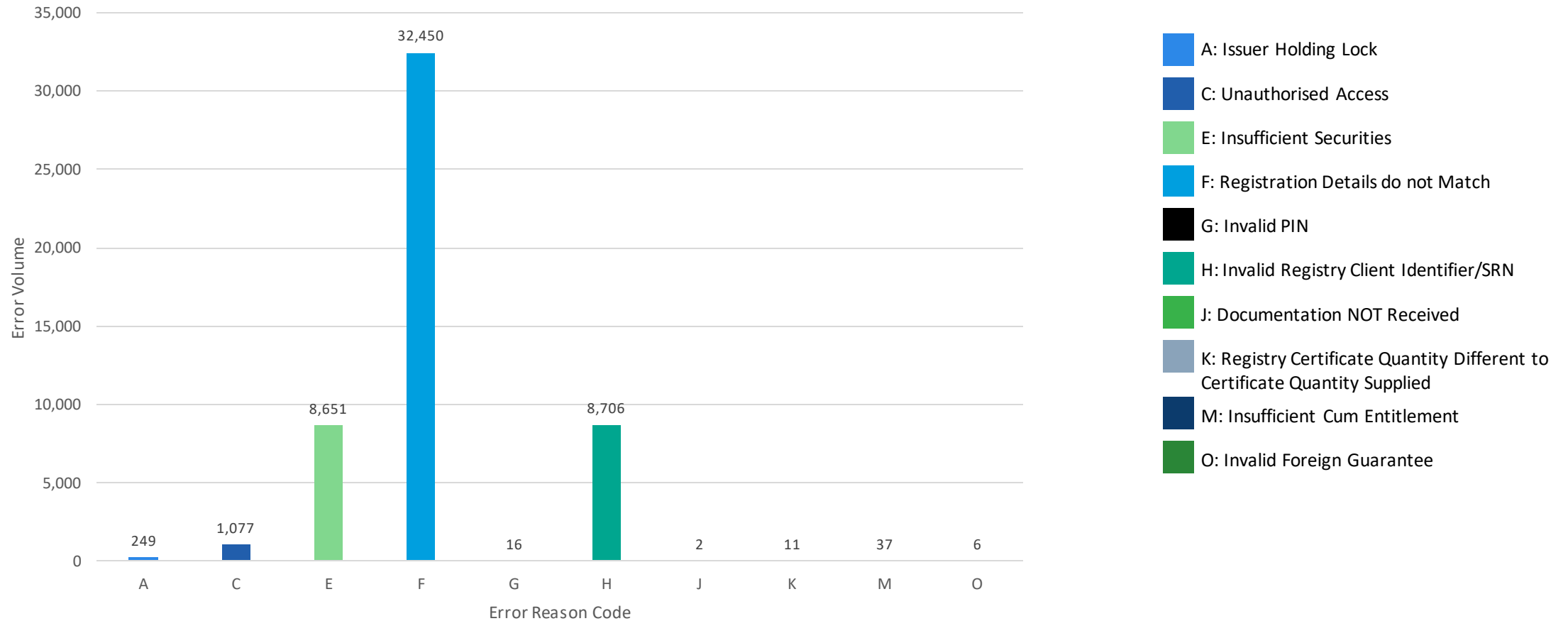


## 03 – Rejection Statistics & Reasons

# 03 - Rejections Data

## Issuer to Participant Conversion Rejections

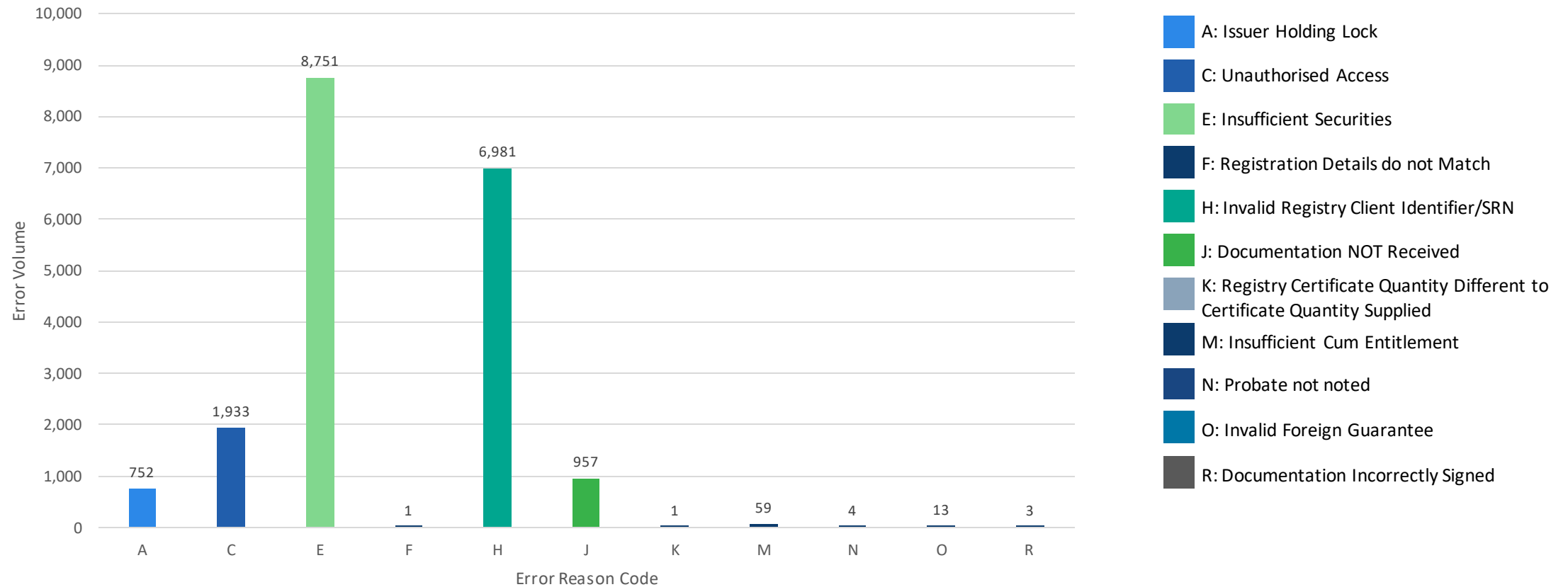
Count by Reason Code of MT403 for Nov 2022 to Jan 2024 (inclusive)



# 03 - Rejections Data

## Issuer to Participant Transfer Rejections

Count by Reason Code of MT407 for Nov 2022 to Jan 2024 (inclusive)

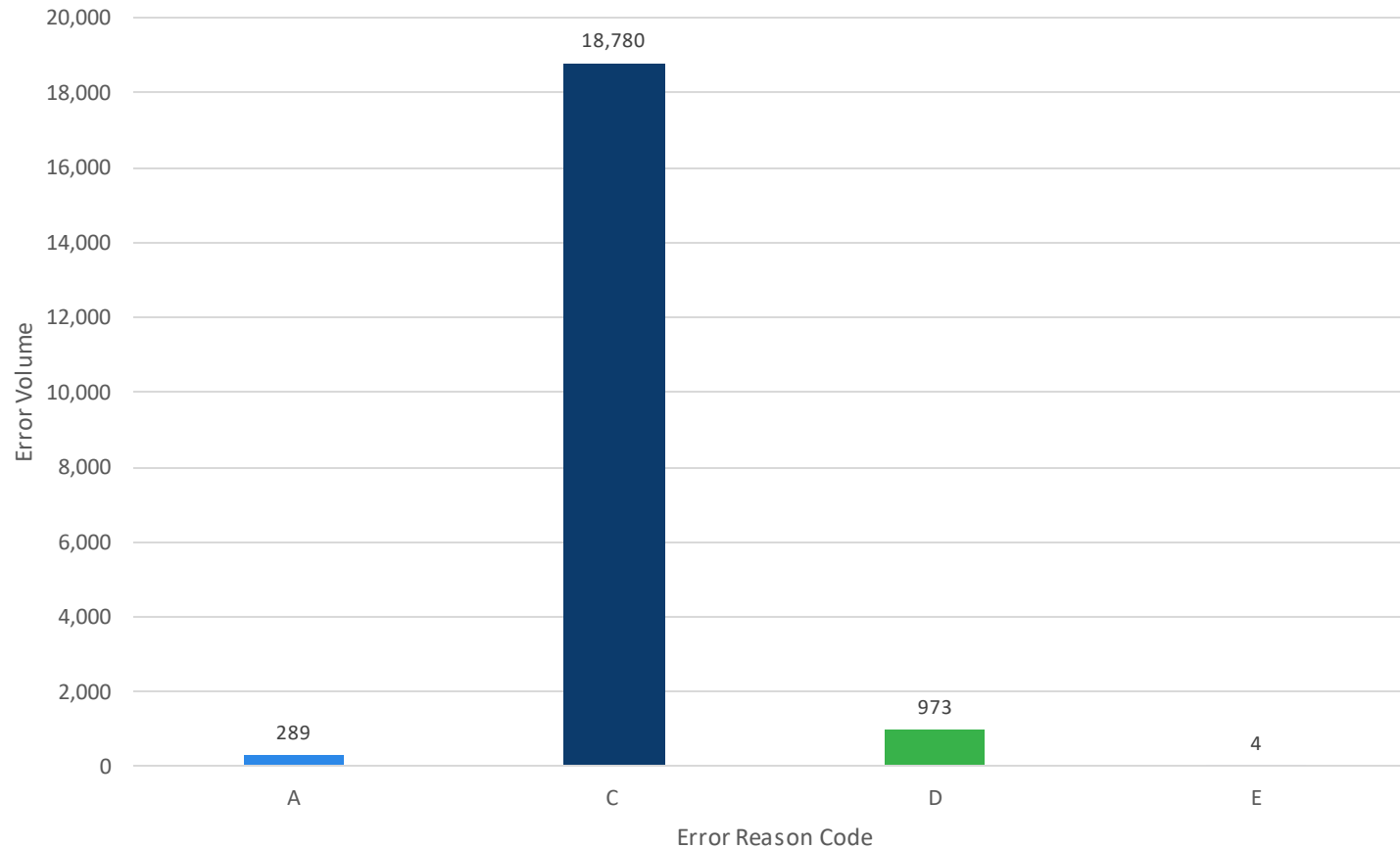




# 03 - Rejections Data

## SRN Enquiry Rejection

Count by Reject Reason Code of MT455 for Nov 2022 to Jan 2024 (inclusive)

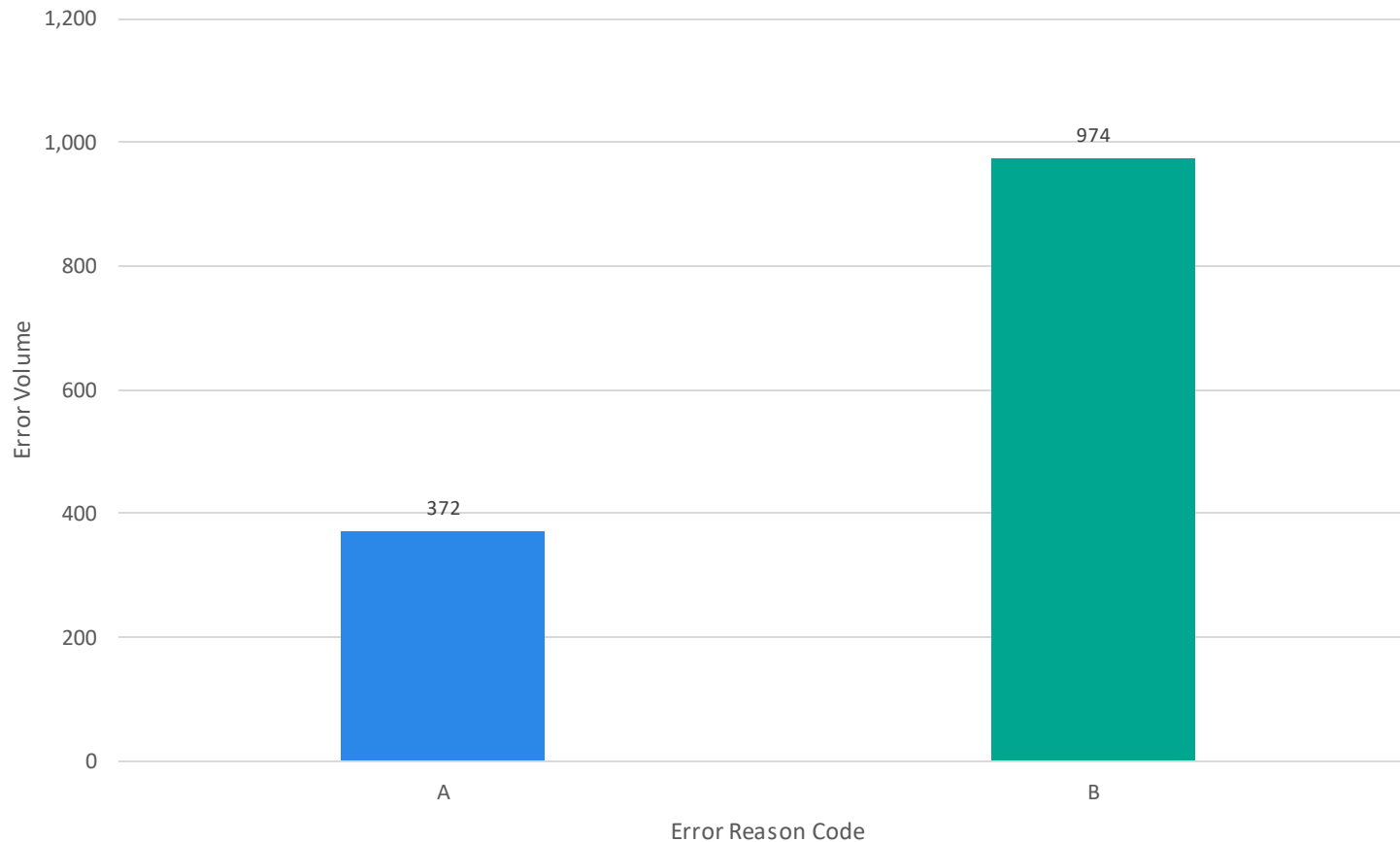


- A:** No Matching SRN (will be returned to the submitting participant if the SRN specified as part of a Holding Balance Enquiry is not found)
- C:** No Matching Registration Details Found (will be returned to the submitting participant if the registration details specified as part of a SRN Enquiry are not found)
- D:** Duplicate Registration Detail Records Exist (will be returned to the submitting participant if the registration details specified as part of SRN Enquiry are duplicated in the issuer/registries records)
- E:** Invalid Holder Status (will be returned to the submitting participant if the holder status is invalid)

# 03 - Rejections Data

## SRN Balance Enquiry Rejections

Count by Reject Reason Code of MT461 for Nov 2022 to Jan 2024 (inclusive)



- A: No Matching SRN** (will be returned to the submitting participant if the SRN specified as part of a Holding Balance Enquiry is not found)
- B: SRN and Verification Details do not Match** (will be returned to the submitting participant if the SRN specified as part of a Holding Balance Enquiry is found BUT the verification details (i.e. surname / company name) do not match the record)

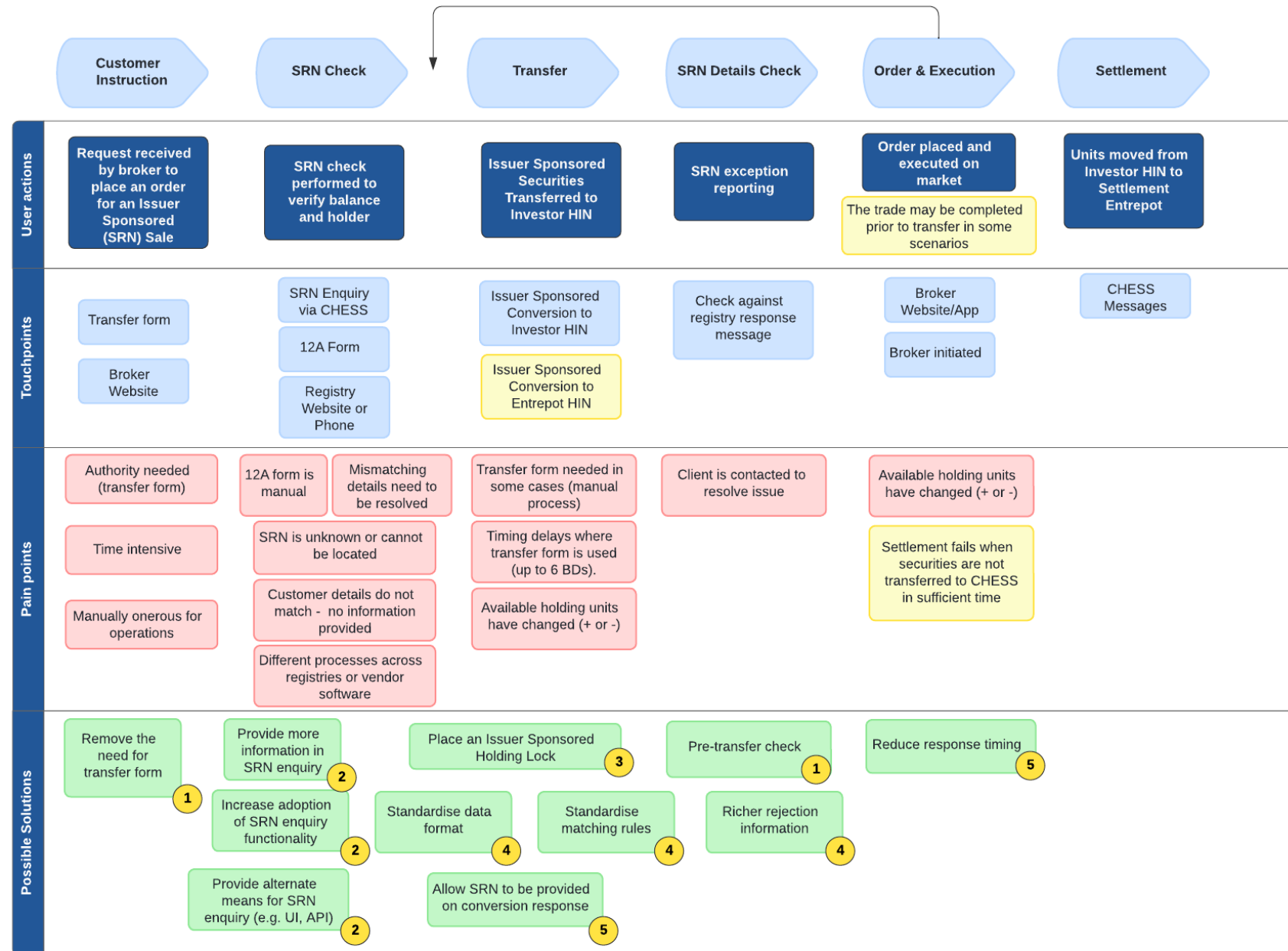
# 04 – User Journeys



# 04 – Issuer Sponsored Sales

## User Journey

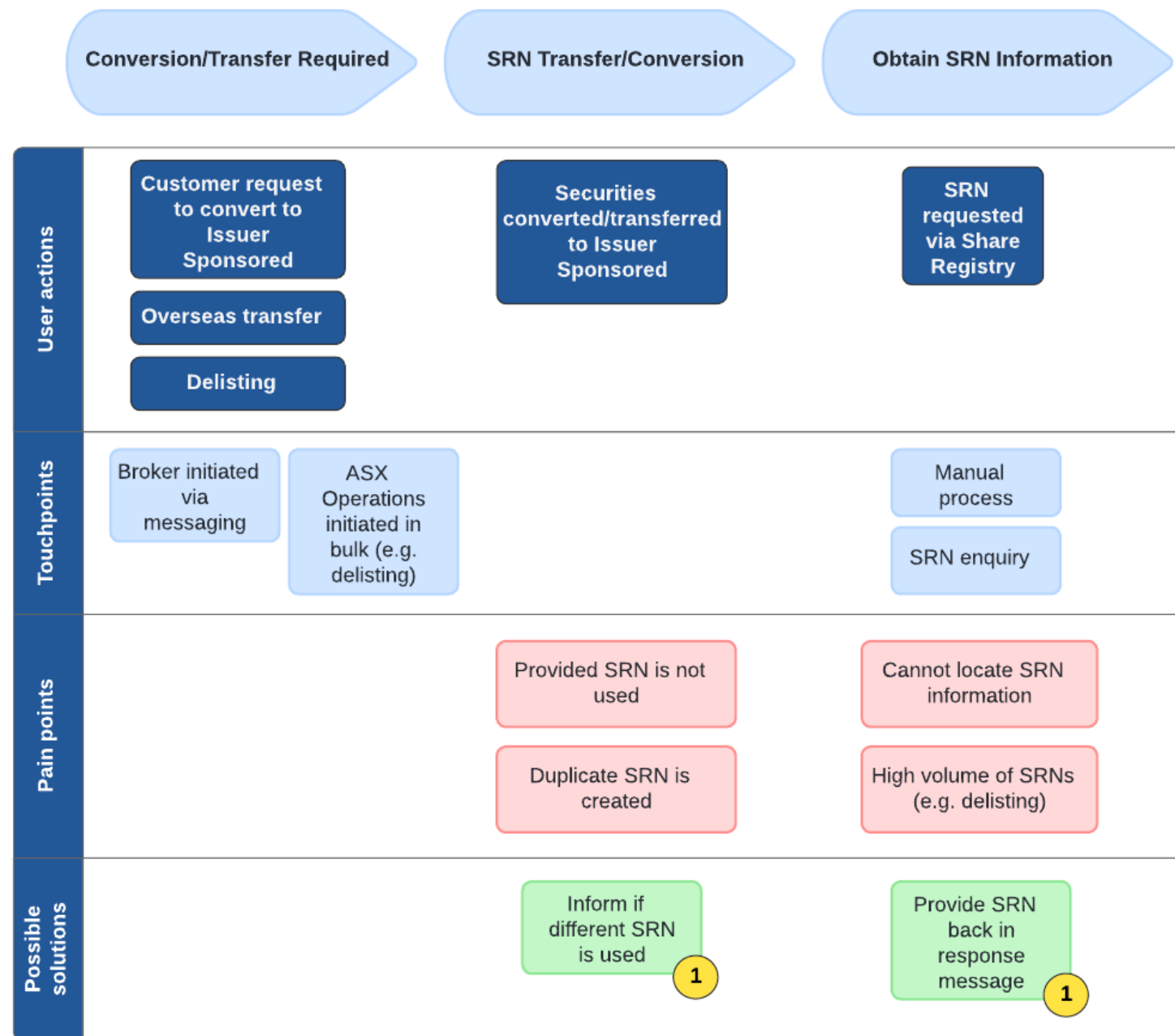
Performing an Issuer Sponsored (SRN) conversion, transfer and sale as a result of a client instruction



# 04 – CHES to Issuer Sponsored

## User Journey

Completing a transfer or conversion from CHES to and Issuer Sponsored sub-register



## 05 – Suggested Improvements

# 05 – Issuer Sponsored

## 1 – Removal of requirement for a registrable transfer document

There is currently a requirement for **settlement-only** participants to receive and provide the issuer registry a document signed by, or on behalf of, the holder (a "registrable transfer document") in relation to an issuer sponsored to CHES transfer.

ASX consulted on and implemented changes to the rules in [July 2018](#) and [August 2019](#) that would remove this requirement for settlement-only participants that meet certain qualifying criteria.

As part of CHES Replacement, it was planned to remove the requirement for a registrable transfer document for all participants (refer [2021 Consultation](#)). This was supported by a change to the workflow that would mandate a pre-transfer check across all participants.

This change was intended to:

- Remove the requirement on issuer registries to manually receive and process a registrable transfer document
- Harmonise processes across all participants
- Allow for the time between initiation of the transfer to confirmation to be reduced from 6 days to 2 days

However, it was noted that there is possibility of an initial increase in transfer rejections as a result of the change.

The potential for increase of transfer rejections could be mitigated through agreement on a common set of matching rules.



Are there any additional considerations needed that would help to mitigate the impact of this change?

# 05 – Issuer Sponsored

## 2 – Improve the SRN Enquiry process

Currently CHESS supports separate messages for the purposes of SRN enquiry and SRN balance enquiry.

Under CHESS Replacement, the suggestion is to unify and improve the way in which these messages work. Based on feedback, further enhancements are suggested below in highlighted in green.

1. Combine SRN Enquiry and Balance Enquiry into a single message:
  - Registration Details and no SRN (SRN to be identified)
  - **No Registration Details with SRN (Registration Details to be identified)**
  - Registration Details and SRN (Registration Details to be verified)
2. Enhance the response message to include further information:
  - SRN
  - Registration Details
  - Holding Balance
  - **Available Balance**
  - **Holder Status (including the lock reason, if applicable)**
  - **Cum Entitlement Balance (if applicable)**
3. Follow standardised/documentated matching rules (per transfers/conversions – see slide 27)
4. **Allow for multiple SRNs to be returned in the message(s) in the case of duplicates**
5. **Provide a return message containing some or all of the Registration Details in the case that SRN and Registration Details do not match and in addition to the rejection reason**
6. SRN enquiry would be made mandatory for accreditation by software providers and issuer registries. In addition, ASX could consider offering SRN enquiry by alternate means (e.g. CHESS UI and/or alternative API)

Remove reliance on 12A form and/or registry website to retrieve SRN registration details

Prevent transfer rejections by providing additional information as part of the enquiry

Allow for duplicates and provide more sufficient information to the broker to help resolve mismatch issues



# 05 – Issuer Sponsored

## 3 – Permit an Issuer Sponsored Holding Lock

In the time between the SRN check and the initiation of a transfer or conversion in preparation for settlement, there is a risk of a change to the SRN holding which could adversely impact a participant's ability to settle.

A way in which this could be potentially mitigated would be to provide the ability for participants to request a temporary lock on an issuer sponsored holding. This would allow the stock to be kept in SRN whilst the trade is placed and prior to transferring the stock.

However, there are multiple challenges/considerations that could arise, such as:

1. The appropriate length of time that the lock could be permitted;
2. The authority required from the investor to allow for an SRN holding lock to be placed
3. Handling of certain situations where the issuer registry needs to relinquish the lock, for example in the case of Corporate Actions processing, including keeping participants informed of changes that affect the lock.

Consideration should be given as to whether this would be a separate message/workflow, whether it could be a part of the SRN enquiry and whether the feature would be adopted universally.



How long would an issuer sponsored holding lock need to be retained?



What are the specific use cases where an issuer sponsored holding lock would be used, and are the scenarios common enough to warrant this functionality?

# 05 – Issuer Sponsored Transfers/Conversions

## 4 – Reduce and simplify transfer rejections

To reduce the instances of rejections in relations to transfers (and SRN enquiries), the following improvements are suggested:

### 1. Standardised Registration Details

In the previous CHES Replacement project, the registration details were proposed to be upgraded from the current 180 characters format, to an ISO standard format allowing for:

- Clear separation of holders (with support for up to 4)
- Clearly delineated address lines
- Standardised formatting rules
- More allowable characters

This format will be further discussed in the BDWG in July in relation to Registration Details and Investor Information. The rationale is that better standardisation of registration details will reduce the likelihood of the same information being represented differently.



Are there any other changes that could help reduce rejections, and improve operational processes in relation to changes.

### 2. Common Matching Rules

In addition to the format changes, ASX proposes that the registries jointly agree a standardised set of matching rules that can be implemented across issuer registries.

This would give participants more certainty as to when a rejection can be expected and allow for joint resolution of common mismatch issues. These could potentially be developed outside of CHES/CHES Replacement via the appropriate industry forum (such as the AFMA Registries WG).

**NEW – Consider the possibility of using DPIDs for Australian addresses for matching purposes**

### 3. Richer Rejection Information

ASX can consider adding a richer set of rejection reasons allowable in the transfer or SRN enquiry rejection message, in addition to the capability of adding the registration detail information either in full or in part.



Is there a minimum set of fields that must match (e.g. post code)?

# 05 – Issuer Sponsored Matching Rules

## 4 – Reduction in Transfer Rejections

The below are a set of potential matching rules that could be agreed and implemented by issuer registries to standardise and provide certainty to participants

Scenario	Rule	Outcome
Differences in name, including abbreviated names, additional names and/or names missed.	Reject	Provide an error code that specifically indicates that the names differ. Provide information in relation to the name that has changed.
Number of holders differ	Reject	Provide an error code that specifically indicates the number of holders differ. Provide information in relation to the actual holders.
Different designation / designation missing	Accept	
Differences in and/or missing salutations	Accept	
Different address	Reject	Provide an error code that specifically indicates the address differs. Provide information in relation to actual address.
Defined set of acceptable abbreviations (e.g. Street versus St, Doctor vs Dr)	Accept	
Minor variations in state/suburb/post code combination <ul style="list-style-type: none"><li>• Same post code, suburb spelled differently</li><li>• Missing suburb, state or postcode</li></ul>	Accept	
Minor formatting variations in addresses (e.g. Unit 6, 123 Street as opposed to 6/123 Street)	Accept	

SAMPLE

# 05 – Issuer Sponsored Transfers/Conversions

## 5 – Allow SRN to be provided on Conversion Response

Currently a CHES to Issuer Sponsored Transfer or Conversion is affected without the need for a response from the issuer registry. The participant can provide an SRN on the request message to be used where the investor has an existing SRN holding. However, information is not relayed back to confirm:

- Whether the supplied SRN has been used, or a new SRN has been created;
- If a new SRN has been created, the details of that SRN

In addition, Issuer Sponsored Conversions can be generated by ASX Operations in certain circumstances, such as de-listings.

This causes issues where the participant needs details of the SRN for further processing, such as in the case of de-listings, transfers to overseas registers, *optionally* providing SRN details to the investor

To mitigate this problem, ASX could consider adding functionality such that CHES to Issuer Sponsored Transfer and Conversion workflows are accompanied by a confirmation from the Issuer Registry. This confirmation would be for informational purposes only and would not prevent the transfer or conversions of stock. It would contain the details of the SRN that has been allocated. It would not be possible for the request to be rejected by the issuer registry, per the current rules.



Would the addition of this step to the workflow, help to increase efficiency and reduce manual processes?



Are there potential privacy or fraud issues in relation to relaying the SRN details back to the participant?

## 06 – Next Steps



# 06 – Business Design Document

## Summary

- > ASX will create a Business Design Document on SRN Enquiry and Validation for your review.

This will include information in relation to:

- Removal of the requirement for a registrable transfer document
  - Enhancing information provided in the SRN enquiry
  - Providing alternative means for SRN enquiries (UI, API)
  - Issuer sponsored holding locks
  - Standardising data formats
  - Standardising matching rules
  - Any other considerations
- > Industry feedback regarding Registration Details and Investor Information will be noted for further discussion in the June 2024 BDWG.

# 06 – RGID (Registration Details Identifier)

## Plans for Further Consultation

The previous CHES Replacement solution required creation of a temporary object recording registration details. This was implemented due to the need for registration details to be sent separately to the transfer request (as part of the ISO standard).

ASX is aware of the challenges of this previous implementation for software providers and plans to consult on alternative options during the detailed design phase as part of in the ISO Design Working Group.

# 06 – Next Steps

## Preparation steps to complete

- > Review the draft Business Design Document when received in approximately 2 weeks and provide feedback to us within the required timeframe
- > The Registration Details and Investor Information BDWG will be held in June 2024
- > Please inform ASX of any changes to your nominated representatives to [CHESSReplacement@asx.com.au](mailto:CHESSReplacement@asx.com.au)
- > Complete the feedback request that will be shared with you after this workshop.



QUESTIONS?



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