

# ASX CHESS REPLACEMENT

Business Design Working Group – Deep Dive  
Exchange Traded Funds

23 October 2024





# Acknowledging Country

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

Artwork by Lee Ann Hall, *My country My People*



# Housekeeping

## Troubleshooting

- > Please mute yourself when not speaking
- > Please use the 'raise hand' feature on MS Teams if you would like to ask a question
- > Please introduce yourself when talking for the benefit of all members
- > Meeting is being recorded for the purposes of capturing decision and actions
- > Dial in details (audio only):
  - +61 2 7208 4607
  - Phone Conference ID: 320 563 617#
- > 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 Introduction and Agenda

02 Survey Playback

03 ETF Creation

04 ETF Redemption

05 Next Steps

# 01

## Introduction and Agenda

# 01 – Detailed Workshop Agenda

#	Topic	Duration
01	<b>Introduction and Agenda</b>  > Workshop objectives and outputs	15 mins
02	<b>Survey Playback</b>  > Scope objective & survey recap	15 mins
03	<b>ETF Creations</b>  > The ETF Creation process	30 mins
	<b>Break</b>	15 mins
04	<b>ETF Redemptions</b>  > The ETF Redemption process	30 mins
05	<b>Next Steps</b>	15 mins
	<b>Total workshop duration</b>	2 hours

# 01 – Workshop Objectives and Outputs

The purpose of the BDWG is to deep dive into a specific topic in relation to practices in the current CHES system, to understand existing technical or operational challenges.

## Objectives

- > Collect advice and expertise to understand current ETF creation & redemption processes
- > Evaluate ways that the ETF creation & redemption processes could be improved, either in current CHES or CHES replacement.

## Outputs

- > A summary of the session will be prepared for the Technical Committee including any recommendations for changes in current CHES or CHES replacement.



What outcomes would you like to achieve for your organisation from this workshop?



# 02

## Scope Objective Playback

# 02 – Scope Objective

## ETF Creations & Redemptions - Recap

### 1.5 Reduce operational risk in relation to the current ETF creation/redemption workflow

#### Problem

- > There are inefficiencies in the current ETF creation and redemptions process
- > Lack of linkages between transactions result in manual, error prone processes and sometimes result in failed settlement
- > There are no existing, unique ETF processes in current CHESS so alternative processes are used which results in inconsistent data

#### Industry Proposed Solutions

- > Introduction of a new reason code for ETF created holding adjustments so Participants are aware of why the holding adjustment occurred
- > Have an agreed ETFs regime as part of a scheduled process (i.e. set a time for units to be created)
- > Automated process (STP) for ETF settlement and creations

#### Business Benefits

- > Reduction in ETF settlement fails and the associated fees
- > Improve operational efficiency in allocating ETF holdings
- > Streamlined ETF processes so there is a common understanding when ETF holdings will be created

#### Risk / Challenges

- > Potential issues with ex-period for ETF creations and redemptions
- > The current process is considered appropriate/sufficient for some Participants - there are only rare occasions when there is a delay.

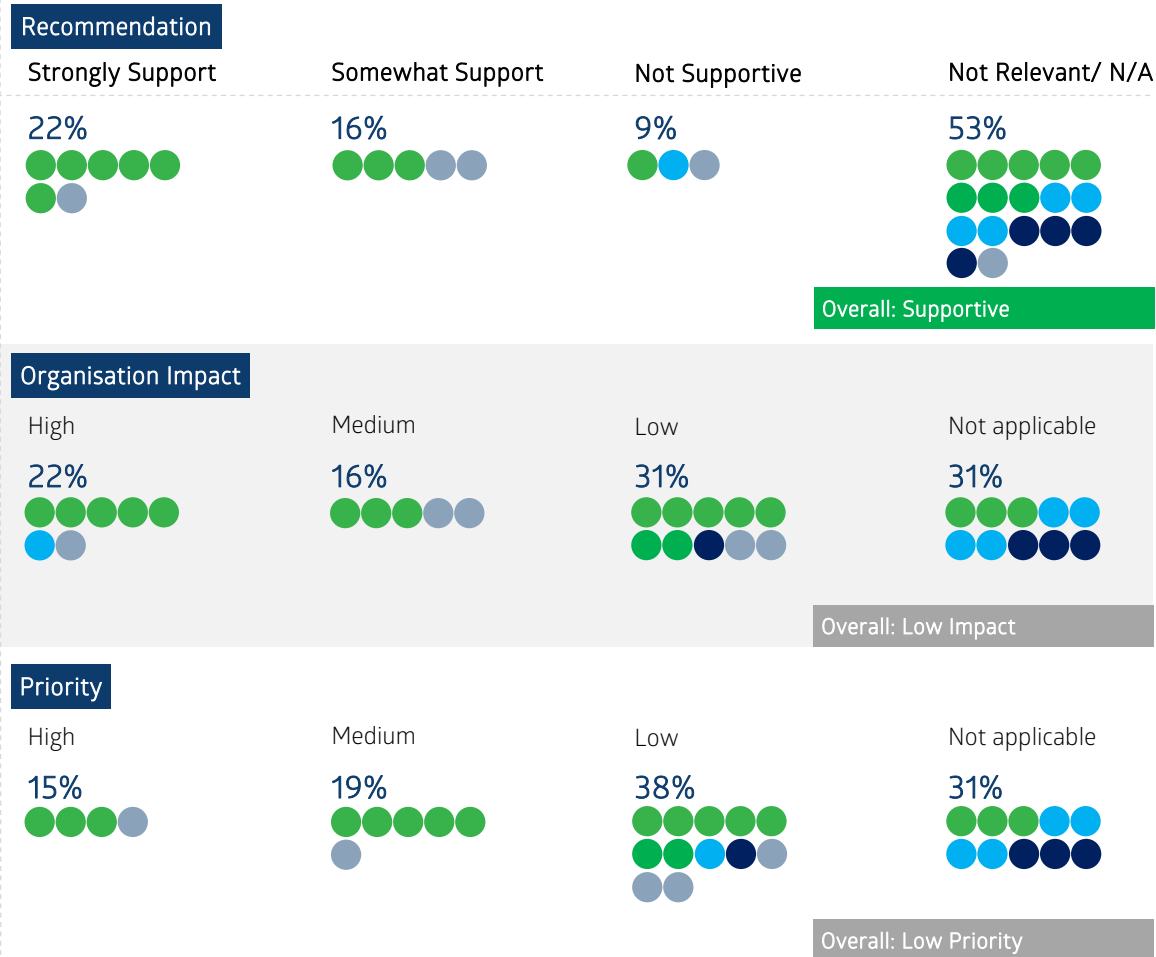
# 02 – Previous Survey Playback

## ETF Creations & Redemptions

### Scope Objective 1.5

#### ETF Creations & Redemptions

Reduce operational risk in relation to the current ETF creation/redemption workflow.



### Insights

#### C&S Participants

Participants who were supportive indicated that benefits included the reduction in manual processes in relation to ETF creation settlements.

#### Software Providers

Majority of Software Providers deemed it not relevant to current systems. Noting some required further context and information to provide more meaningful responses.

#### Share Registries

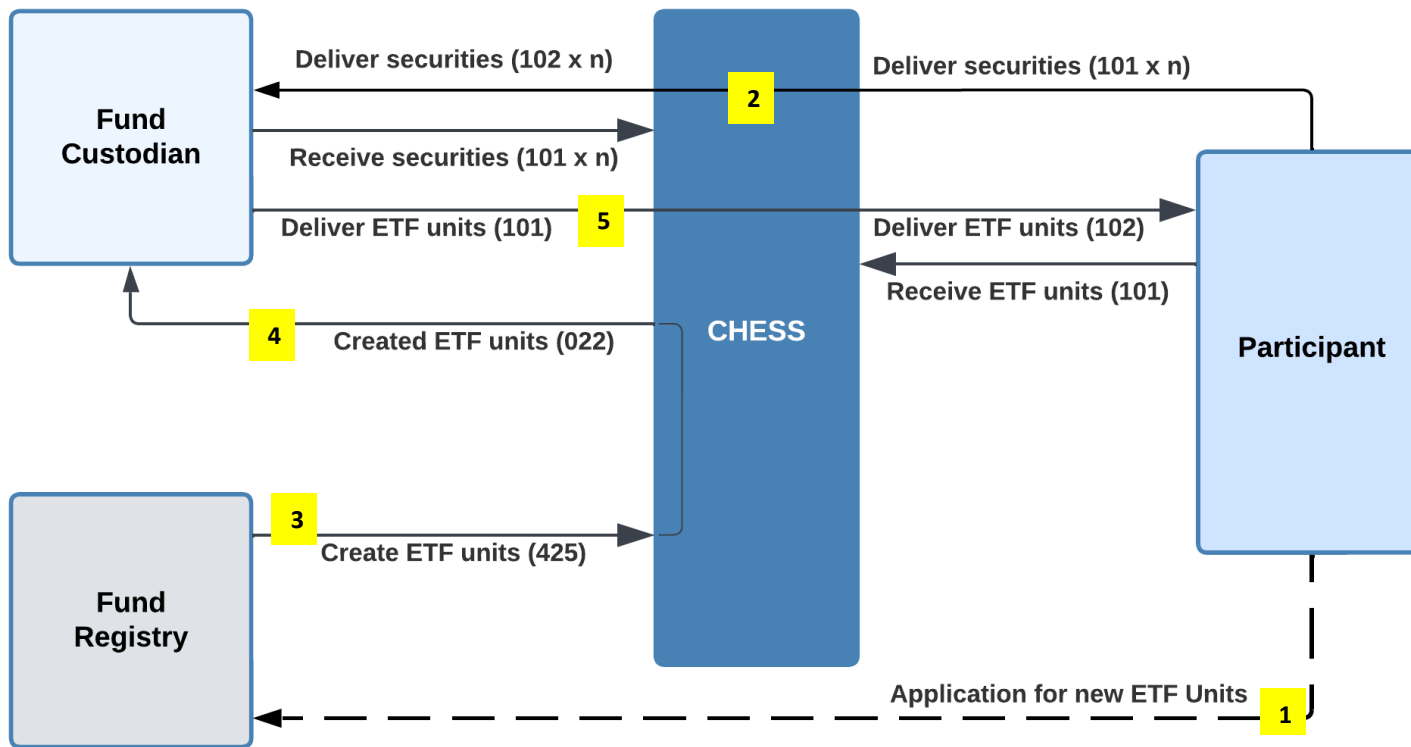
Share Registries who were supportive were interested in discussing improved workflows in the creation and cancellation of ETFs.

# 03

## ETF Creation Process



# 03 – The current ETF creation process



n = the number of lines in underlying basket

1. The Participant submits an application for primary market unit creation to the ETF issuer (Fund Registry) outside CHES
2. The Participant acquires the necessary securities to support creation of the ETF units via ASX or AMO, and arranges delivery via matching 101s with the Fund Custodian (CHES eligible securities)
3. The Fund Registry sends CHES a 425 to create sufficient ETF units in the Fund Custodians HIN in CHES to satisfy the in-specie application
4. CHES notifies the Fund Custodian's HIN that the units have been created by way of a 022 message
5. The Fund Custodian sends CHES a 101 to deliver the ETF units being created. CHES notifies the Participant of the unmatched transaction via a 102 message. The Participant sends CHES a 101 to receive the ETF units from the Fund Custodian.

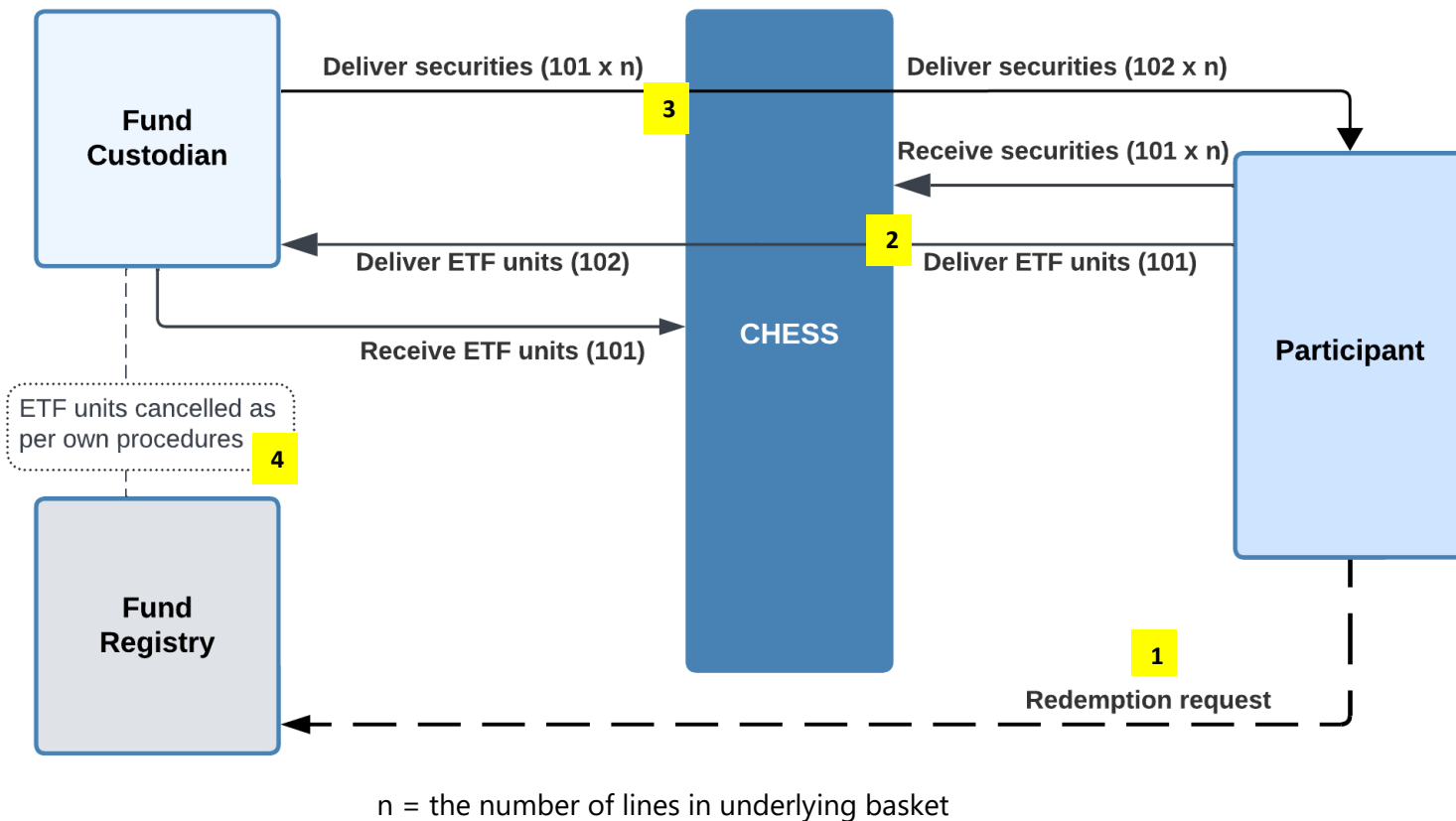


What are the pain points in this process for your business?

# 04

## ETF Redemption Process

# 04 – The current ETF redemption process



1. The Participant submits an application for primary market unit redemption to the ETF issuer (Fund Registry) outside CHES
2. The Participant sends a 101 to CHES to deliver the ETF units being redeemed to the Fund Custodian. CHES notifies the Fund Custodian via a 102 message. The Fund Custodian sends CHES a 101 to receive the ETF units from the Participant. CHES matches the notifications
3. The Fund Custodian sends a 101 to CHES for each security in the creation unit basket to deliver the securities to the Participant. CHES notifies the Participant of the unmatched transactions via a 102 message. The Participant sends a 101 for each security in the creation unit basket to receive that security from the Fund Custodian. CHES matches the notifications
4. After settlement, the Fund Registry arranges for the cancellation of the redeemed units.



What are the pain points in this process for your business?

# 05

## Next Steps



# 05 – Next Steps

## Summary

- > ASX will prepare a summary of the session for the Technical Committee including any recommendations for changes in current CHESSE or CHESSE replacement.

## Preparation Steps to Complete

- > We will be holding another deep dive on the transaction basis in October/November
- > Please inform us of any changes to your nominated representatives to [CHESSEReplacement@asx.com.au](mailto:CHESSEReplacement@asx.com.au)
- > Please complete the feedback request that will be shared with you after this workshop.



# Questions

# Disclaimer/Important Information

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Thank you.



