

ASX CHESS replacement

Factsheet for Issuers – June 2020



What is CHESS?

CHESS is ASX's system that clears and settles trading in Australia's equity markets. It also maintains the CHESS sub-register of security holdings on behalf of over 2,200 issuers.

Why is the CHESS replacement important?

CHESS replacement will modernise and upgrade critical market infrastructure and enable processes to be digitised, increase efficiency and capacity, reduce risk, deliver new functionality, lower barriers to entry for service providers, and stimulate product development and innovation. The new solution will power Australia's financial markets into the next decade and beyond to meet future challenges. Heightened market activity caused by the COVID-19 pandemic reinforces the importance of replacing CHESS safely and timely.

What does this mean for issuers?



When CHESS replacement goes live many issuers will not notice any immediate changes.

Your service partners, like share registries, will continue to provide services to you, and are mapping their current software to the new upgraded and internationally recognised ISO 20022 messaging standard.



CHESS replacement will include some new system features, like improved processing for corporate actions.

ASX will also be providing an optional new access point for CHESS via an API connection to our distributed ledger. You won't have to connect via this channel to access all the features of CHESS.



ASX fees for like-for-like services will not change. ASX is not recovering the costs of CHESS replacement by charging issuers more.

You will have more control over your data, allowing you to select the most cost-effective services to meet your needs.



Software developers and fintechs will build 'micro services' that issuers may choose to use, such as a better voting application or shareholder analytics engine.

We believe that many of the most exciting changes will come from service providers competing for your business by offering more cost-effective and innovative products.

What's the current status?



ASX has engaged deeply and widely with the market since 2016 and incorporated new and useful features into the scope for CHESS replacement.



The COVID-19 pandemic has impacted resourcing and readiness activities among ASX and CHESS users, requiring some project milestones to be pushed back.



Rebuilding CHESS requires some changes to ASX rules. We have been working with the industry and regulators on these changes and have received valuable feedback. We will keep all stakeholders updated.



In March, ASX announced that we'll consult on a revised implementation timetable to begin shortly. We remain committed to the project and will continue to act in the best interests of the whole market.



Seven of ten software drops are available in customer development environments to the service providers that connect to CHESS.

The facts – what CHESS replacement is doing

- 1 Replacing a 26-year-old system to ensure the continued resilience of the Australian equities market.
- 2 Building a world-class open solution based on distributed ledger technology to host CHESS and other applications developed by industry.
- 3 Maintaining message-based connectivity upgraded to the internationally recognised ISO 20022 standard for those service providers that continue to connect in this manner.
- 4 Increasing investor and issuer protections with more accurate ownership validation, and improving transparency in capital raisings.
- 5 Reducing barriers to entry for any business providing services to issuers.
- 6 Delivering improvements to corporate action elections, particularly for participants who have asked for more efficient and risk averse processes.

The myths – what CHESS replacement is not doing

- 1 **ASX will not increase fees for issuers on like-for-like services to pay for the CHESS replacement project.** ASX is funding CHESS replacement through its capital expenditure program, not by raising fees.
- 2 **CHESS replacement will not change the framework for the use of data.** Data is provided in accordance with the Operating Rules and used for clearing and settlement services. The rules specify the purpose for data use and restrict unauthorised disclosure. Issuers will have greater control over data enabling service providers to develop new data-driven services, subject to privacy obligations.
- 3 **CHESS replacement will not increase risks to issuers, participants or investors.** We are working to ensure the move to the new system is as smooth and safe as possible. ASX has assessed that a single cutover weekend is the option with least risk and complexity.
- 4 **CHESS replacement will not remove the need for share registry services.** Share registry services will continue to be available and play an important role with issuers. Several share registries are already working with us to enhance their offering to issuers using distributed ledger technology.

Electronic CHESS holding statements

ASX will be providing a digital delivery option for investors who wish to receive their CHESS holding statements in electronic form. We are targeting to go live in late 2020. Investors must elect for electronic delivery via their broker. This will deliver cost savings to issuers.

What's next?

ASX will keep you up-to-date on developments in CHESS replacement, including any changes you may need to make to company policies or documents to adapt to the solution's new features.

Please look out for more information on distributed ledger technology and the potential benefits to issuers over the next 12 months.

Where can I find more information?

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Visit: www.asx.com.au/services/chess-replacement.htm