



CHES Replacement Partnership Program

**Development Incentive Pool
Future Milestones
Consultation Paper**

17 April 2024



Invitation to comment

Please provide your response to this consultation paper by 15 May 2024.

Submissions should be sent to:

E CHESSReplacement@asx.com.au

ASX Limited

20 Bridge Street

Sydney NSW 2000

PO Box H224

Australia Square NSW 1215

Attention: Steven Hannan

ASX prefers to receive submissions in electronic form.

If you would like your submission, or any part of it, to be treated as confidential, please indicate this clearly in your submission.

Submissions marked 'confidential' will not be published but may be provided to the relevant regulators on request. ASX is available to meet with interested parties for bilateral discussions.

Contacts

For general enquiries, please contact:

Steven Hannan

Senior Manager,

Equity Post Trade Services

T 0458 466 969

E steven.hannan@asx.com.au

Contents

1. Overview	3
2. Background	3
2.1. Partnership Program Creation and Structure.....	3
2.2. Partnership Program Commitment.....	3
2.3. Existing Eligibility Criteria	4
3. Proposed Future Development Incentive Pool Milestones and Payments	4
4. Next Steps	5

1. Overview

This consultation paper seeks your feedback on the proposed milestones for payments under the final tranche of the CHES replacement Partnership Program (**Partnership Program**), up to \$35 million. The proposed milestone structure and allocation of funds are designed to support eligible participants of the Partnership Program (**Program Participants**) to undertake the requisite technological and associated development activities to successfully interface with Release 2 of the CHES replacement solution.

2. Background

2.1. Partnership Program Creation and Structure

On 16 February 2023, we announced the establishment of the Partnership Program, a forward-looking incentive program designed to encourage continued participation in the CHES replacement project.

We have committed up to \$70 million to the Partnership Program, which is made up of two key components:

1. **Participant Rebate Pool** of up to \$15 million, paid to clearing and settlement (**CS**) participants proportionately based on CS fees paid to ASX during the period 1 January 2023 to 30 June 2023. The rebate was designed to provide support through a one-off fee reduction. All payments under the Participant Rebate Pool have now been made to eligible Program Participants.
2. **Development Incentive Pool** of up to \$55 million to be made available to Program Participants that meet the eligibility criteria set out in section 2.3 below. Payments from an initial \$20 million pool commenced in May 2023, and the remaining payments will be tied to future CHES replacement project milestones. The payment milestones and allocation of funds for those payments will be confirmed following the formal consultation process (see section 3).

Balancing the varying developmental requirements of our diverse stakeholders was a priority when designing the Partnership Program. At the time of the Partnership Program's inception, we were in the early stages of considering all potential solution archetypes, and accordingly were unable to determine the level of industry impact that the new solution would involve, nor gauge the amount of industry work completed to date that would be available for potential reuse. As a result, we were not in a position to determine any future milestones for the subsequent payments under the Development Incentive Pool, and such milestones were set aside for future consultation.

2.2. Partnership Program Commitment

We announced a commitment of up to \$70 million for the Partnership Program on 16 February 2023. Subsequently, we received feedback asking for confirmation of the final total amount up to \$70 million that we will be paying out to participants. We intend to provide clarity on the overall Partnership Program funding commitment as soon as possible following finalisation of the CHES replacement project scope, anticipated to be by the end of this calendar year following stakeholder consultation.

We are currently [consulting](#) on Release 1 (clearing) of the CHES replacement project and will be consulting on Release 2 (settlement and subregister) in Q3 2024. The outcomes of these consultations will be key in determining the scope of the project.

2.3. Existing Eligibility Criteria

Following the announcement of the Partnership Program, we [consulted](#) with the industry on the proposed eligibility criteria for the Development Incentive Pool, and shared the [revised eligibility criteria](#) with CHESSE users and industry stakeholders via an industry webinar in May 2023.

To qualify for participation in the Development Incentive Pool, a Program Participant is required to develop a minimum of one technology application designed to connect and interact with the CHESSE replacement solution. The technology application(s) will undergo technical accreditation by ASX. As part of the Partnership Program eligibility process, Program Participants must provide detailed information about their development activities, including the number and specific name(s) of the technology application(s) they plan to develop.

If a Program Participant meets the eligibility criteria for the Development Incentive Pool, it is categorised as either a Tier 1, Tier 2 or Tier 3 Program Participant based on the number of CHESSE messages being developed by that Program Participant. The allocated tier determines the amount to which the Program Participant is entitled for the payment under the Development Incentive Pool. Where a Program Participant is developing two or more applications to be accredited which fall within Tier 3 or above, that Program Participant will be eligible to receive payments under the Development Incentive Pool equal to 1.5 times the amount determined under the allocated tier.

After considering feedback from the market, we determined that it was appropriate to broaden the scope of the Development Incentive Pool to include additional stakeholders who will:

- engage in significant internal development efforts to prepare their systems and operations for integration with vendor systems that support key CHESSE replacement project milestones; and
- transmit and receive more than 5 million CHESSE messages annually.

We are not seeking further feedback on the eligibility criteria. However, we will consider any additional entities that apply to participate in the Development Incentive Pool. Where a new entity meets the eligibility criteria, it will only be eligible for future payments under the Development Incentive Pool and no retrospective payments will be made. We may determine a cut-off date for new participants to join the Partnership Program.

3. Proposed Future Development Incentive Pool Milestones and Payments

Noting that the backwards compatible design significantly reduces the work required from CS participants in Release 1, the proposed Development Incentive Pool milestones represent CHESSE replacement project Release 2 (settlement and subregister) critical path milestones that will require uplift from Program Participants to support increased engagement and testing activities. These milestones will be confirmed following the completion of the CHESSE replacement project market consultation on the proposed Release 2.

Following the CHESSE solution announcement in November 2023, we undertook an initial round of bilateral engagement with existing Program Participants to solicit feedback to inform and refine the proposed future Development Incentive Pool payment milestones. The majority of existing Program Participants have provided feedback to date, indicating:

- a strong preference for the first milestone payment to align with entry into the equivalent of the previous CHESSE replacement Industry Test Environment 1 (ITE1);
- a preference for the second milestone payment to align with the completion of technical accreditation of the Program Participant's technology application(s) by ASX; and
- support for the first payment to be made earlier to support Program Participants' working group participation and internal CHESSE replacement business cases to assist in establishing technology teams to support initial development and testing prior to the equivalent of ITE1 entry.

Taking into account the above feedback, we propose the following milestone structure for the future Development Incentive Pool payments:

Table 1: Proposed Development Incentive Pool Milestones and Payments

Milestone	Description	Proposed Allocation of Funds
1	Entry into the equivalent of the previous CHES replacement Industry Test Environment 1 (ITE1) and successful completion of a specified subset of test scenarios prior to completion of technical accreditation	50% of the remaining Development Incentive Pool funds
2	Successful completion of technical accreditation of eligible Program Participants' technology application(s) by ASX	50% of the remaining Development Incentive Pool funds

Successful completion of the specified subset of test scenarios under the proposed first milestone will be subject to verification by ASX.

4. Next Steps

We encourage you to share your views regarding the proposed future Development Incentive Pool payment milestones outlined in section 3 of this paper. Should you prefer an alternative approach to the proposed milestones and allocation of funds, we ask that your submission outlines your preferred approach and rationale for this approach. We request that you provide your written response to this consultation paper's proposals by 15 May 2024.

If you would like your submission, or any part of it, to be treated as confidential, please indicate this clearly in your submission. Submissions marked 'confidential' will not be published but may be provided to the relevant regulators on request. We are also available to meet with interested parties for bilateral discussions.

We will consider all stakeholder feedback with an aim to publish a response to the consultation feedback in Q2 2024. At this time, we aim to confirm the milestone structure and proportional allocation for the remaining Development Incentive Pool payments. We will determine the timing of the future milestone payments following the industry consultation on the CHES replacement project's implementation plan. We understand the importance of timely communication in this regard and intend to inform existing Program Participants of the timing as soon as reasonably practicable after the publication of a revised project plan (expected to be in late Q4 2024).