

CHES Replacement Technical Committee Minutes

8 May 2024

At its May meeting, the CHES Replacement Technical Committee was updated on:

AGENDA AND KEY TOPICS DISCUSSED

- Open actions and feedback;
- Project status;
- Working group updates;
- Scope objectives updates;
- Industry engagement and consultation; and
- Forward work plan.

AGREED ACTIONS

There were three new actions raised at the May meeting:

1. Schedule an ETF WG and revert to the Committee with the proposed schedule and/or outcome.
2. Schedule an ISO Design WG and revert to the Committee with the proposed schedule and/or outcome.
3. Schedule a forum to discuss the practicalities of populating the Transaction Basis field and revert to the Committee with the proposed schedule and/or outcome.

Minutes from the meeting are attached.

Agenda

CHESS Replacement Technical Committee

| | | | |
|-------------|------------|-------------|-----------------|
| Date | 8 May 2024 | Time | 2:00 PM-3:30 PM |
|-------------|------------|-------------|-----------------|

| | |
|-----------------|---------------------------|
| Location | Virtual - Microsoft Teams |
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1. Welcome, open actions and feedback
2. Project status
3. Working group updates
4. Scope objectives update
5. Industry engagement and consultation
6. Observer feedback

Action Items Raised in Meeting:

| Item number# | Action | Due date | Status | Owner |
|----------------|---|-------------|--------|-------|
| 2024 April (1) | Review Committee reporting of project risks | 8 May 2024 | Closed | ASX |
| 2024 April (2) | Include partners TCS and Accenture in agenda items to increase visibility of their capability | 8 May 2024 | Closed | ASX |
| 2024 May (1) | Schedule ETF WG | 6 June 2024 | Open | ASX |
| 2024 April (2) | Schedule ISO Design WG | 6 June 2024 | Open | ASX |
| 2024 April (3) | Schedule Transaction Basis matching forum | 6 June 2024 | Open | ASX |

CHES Replacement Technical Committee Members

| Company | Name | Job Title | Apologies |
|---|-------------------|---|-----------|
| ASX | Tim Whiteley | Technical Committee Chair and CIO | |
| Independent Chair | Paul Rayson | Business Committee Chair | |
| Clearing and Settlement Participants | | | |
| ABN AMRO CLEARING | Matthew McMahon | Head of Operations | |
| AUSIEX | Ashish Jha | Director, Solution Delivery Management | |
| Merrill Lynch Equities (Australia) | Matthew Gwynn | Project Manager Director, Head of Operations | |
| BELL POTTER SECURITIES | Lee Muco | Chief Operating Officer | |
| BNP PARIBAS | Wayne Murphy | Project Manager | |
| CITI | Lyall Herron | Program Manager | |
| CMC | Maral Istanbulian | Technical Business Analyst Team Lead | |
| COMMSEC | Ryan Jones | Crew Technical Lead | |
| FINCLEAR SERVICES | Nikki Gleisner | Senior Business Analyst/Client Relationship Manager | |
| GOLDMAN SACHS | Simon Wyss | COO, Australia/ New Zealand Engineering | |
| HSBC | Simon Siluk | Senior Product Manager | |
| J.P. MORGAN | Scott Oakland | Executive Director Product Management | |
| MACQUARIE GROUP | Paul Bragg | Operations Analyst | |
| MORGAN STANLEY WEALTH | Andrew Sime | Executive Director | Apology |
| MORGAN STANLEY SECURITIES | Rebecca Collins | Executive Director | |
| MORGANS | Daniel Spokes | Director, Client Support Services | |
| NAB | Rodd Kingham | Head of Investment Service (Wealth Hub Securities) | |
| UBS | Scott Hanlon | Head of Operations, Executive Director | |
| Third party software vendors | | | |
| BROADRIDGE | Danielle Gerace | Head of Client Service Australia | |
| COMPUTERSHARE | Leanne Bailey | Senior Business Analyst | |
| FINCLEAR | Craig Gray | Head of Product for Settlement & Clearing systems | |
| FNZ | Nick Clarke | Head of Product Management – Capital Markets | |
| SECURITEASE | David Hinkley | General Manager | |
| AMOs | | | |
| ASX | Jimmy Halstead | Head of Trading Technology Markets, Technology | |

| | | | |
|-------------------------|-----------------|--|---------|
| CBOE | Rylan Uherek | VP – Chief Operating Officer APAC | |
| NSX | Yemi Oluwi | Head of Market Operations and Technology | |
| SYDNEY STOCK EXCHANGE | Rajnish Tiwari | Head Exchange Technology | Apology |
| Share Registries | | | |
| ADVANCED SHARE REGISTRY | Patrick Gan | IT Manager | |
| AUTOMIC GROUP | Sue Julian | Head of Business Operations | |
| BOARDROOM | Michael Mullins | Chief Information Officer | Apology |
| COMPUTERSHARE | Scott Hudson | General Manager – Market Liaison | |
| LINK MARKET SERVICES | Andrew Farrell | Senior Project Manager – CHESS Replacement | |

* Delegate

Observers

| Company | Name | Job Title | Apologies |
|-----------|--------------------|---|-----------|
| AusPayNet | Luke Wilson | Chief Operating Officer | Apology |
| AFMA | Damian Jeffree | Senior Director of Policy | |
| AIRA | Ian Matheson | Chief Executive Officer | |
| GIA | Simon Pordage | Brand Ambassador for Governance Institute of Australia & Company Secretary for ANZ) | |
| SIAA | Judith Fox | CEO | |
| ASIC | Derek Scott | Senior Specialist - Market Infrastructure Markets | |
| | Liang Chen | Analyst - Market Infrastructure (Clearing & Settlement Facilities) | |
| RBA | Elizabeth Kandelas | Manager - Financial Market Infrastructure, Domestic and Payments. | |

ASX Management

| Name | Job Title | Apologies |
|-------------------------|--|-----------|
| Clive Triance | Group Executive, Securities & Payments (Project Sponsor) | Apology |
| Steven Hannan | Senior Manager Stakeholder Engagement, Equities | |
| Triona Quinlan | General Manager, Technology Delivery | |
| Chris Boyes | Senior Product Manager, Securities and Payments | |
| Jason Genford | Senior Project Manager | |
| Peter Jessup | Accenture, Release 1 Product Owner (SI Business Lead) | |
| Mark Kaplan | Accenture, SI Executive | |
| Craig Springett | Accenture, SI Delivery Lead | |
| Saravanan Prathap Kumar | TCS, Program Manager | |

AGENDA ITEM 1: Welcome, open actions & feedback

The Chair welcomed members and delegates to the May meeting of the CHES Replacement Technical Committee (Committee).

The meeting attendance was recorded and is reflected in the tables provided.

The previous minutes from the 3 April Committee were approved and are now available on the CHES Replacement [website](#).

The Chair reminded members of their obligations under competition law and encouraged active participation, noting the purpose of the Committee was for stakeholders to provide input and feedback.

An overview of the agenda was provided before the Chair introduced the two open actions from the 3 April meeting:

| Item Number | Action | Discussion |
|----------------|---|--|
| 2024 April (1) | Review Committee reporting of project risks | Action addressed and closed as part of agenda item 1. Details below. |
| 2024 April (2) | Include partners TCS and Accenture in agenda items to increase visibility of their capability | Action addressed and closed as part of attendance record. Details above. |

AGENDA ITEM 2: Project Status Update

The ASX Technology Delivery General Manager provided key updates on the project's delivery, noting that:

- The first Project Increment (PI0) to deliver the detailed requirements and designs for drop 1 was complete. Planning for PI1 was also completed in early May.
- There are expected to be three code drops for Release 1, with the first drop from TCS expected to be delivered in Q3 CY24.
- In the next three months ASX and TCS are planning on building the drop 1 features, while the analysis and design teams will be focussing on the inclusions required for drop 2.
- An un-customised version of the TCS BaNCS product has been installed on our cloud infrastructure, which the BA teams are using to assist with detailed design.
- The Proof of Technology environment has been installed on the ASX AWS cloud landing zone and readied for the first round of tests consisting of 10,000 messages.

The ASX Technology Delivery General Manager also presented current project risks.

Member discussion

A Committee member noted there were more items noted at the March Business Committee. The Chair responded stating that low level risks are constantly cycled as ongoing mitigation strategies are implemented. A Participant representative was pleased with the transparency of ASX in reporting the risks, noting that the inclusion of mitigations is clear and that the risk reporting is appropriate. The Chair agreed and reiterated that ASX is also held accountable through internal governance process, and externally through our regulators and external assurance providers.

AGENDA ITEM 3: Working Group Updates

3.1 AMO Working Group – 11 April 2024

The Release 1 Product Owner (SI) confirmed the focus on the refinement and subsequent publishing of the FIX specification, with the following areas to be circulated to AMOs for feedback, prior to being bedded down:

1. Potential increase in size of the Trade Identifier ID

2. Potential inclusion of a second Trade ID
3. Handling of trade validation exceptions
4. Potential removal of redundant fields in the context of the new solution
5. Confirmation of the failover design and resiliency plan

3.2 Upcoming Business Design Working Groups

The ASX Senior Product Manager highlighted the upcoming Business Design working sessions, noting opportunities will be sought to combine sessions to accommodate industry scheduling where possible.

Member discussion

A Committee member requested confirmation of a netting and settlement session, to which the ASX Senior Product Manager advised the netting session was held in January, with the settlement session scheduled for the end of this month [May]. It was noted that the Business Design Document for netting has been circulated which contains a further detail and that any discussion on the content was welcome.

Further discussion highlighted the limited contingency in the working group timeline. The ASX Senior Product Manager advised that the schedule prioritised higher impact scope objectives to enable the outcomes to be included in the Release 2 consultation paper, and that consultation through working groups will be ongoing throughout the project.

3.3 Business Design Working Group: T+1 Considerations – 2 May 2024

The ASX Senior Product Manager provided a summary of the 2 May Business Design Working Group which focussed on functionality considerations for any potential transition to T+1 settlement.

The ASX Senior Product Manager reiterated that despite no decision being made to move to T+1, there was a need to consider and analyse the impact to both CHESS and CHESS Replacement.

The ASX Senior Product Manager highlighted the key points discussed:

- ETO exercise process: review timings and process
- Margining timing and process requires review including the possible for margining on T or intra-day margining
- Operating hours and cutoffs: extended hours, and ability to have different cutoffs for different transactions (e.g. matching running overnight)
- Improved matching processes: pre-matching, additional criteria/information, common ID, integration with upstream systems
- Shorten batch cycle by automating payment provider approvals: limit checking
- Preference for DvP model 3 with a single batch as this provides finality to the settlement process
- Pre-batch simulation / predictive analysis to allow participants to know the potential outcomes of batch settlement in advance would help with timings
- Batch to be run later in the day, with the potential for settling low volume transactions outside of batch (e.g. sec lending, ETFs)
- Review of SLAs to promote automation: such as issuer sponsored transfers, off-market transfers
- Ex Transaction Processing (cum entitlement balances) may potentially still be required for priming and securities lending transactions
- Deep dive on ETF settlement process would be beneficial to see if there are opportunities to remove manual steps

The ASX Senior Product Manager highlighted the items above would need further analysis and consultation to take them forward and that the outcomes of the session will also inform future working groups.

Member Discussion

A Committee member wished to note their opinion of the session as being eye opening to see what support the market needs from the ASX to go forward with T+1, with the detail and conversation resulting in a beneficial session.

A request was made for a timeframe of when the ISO Working Group would be expected to recommence, to which the Chair confirmed we will note as an action.

3.4 Implementation and Transition Working Group

The ASX Senior Project Manager provided a summary of the 3 May I&T Working Group, noting the focus was on the Release 2 timelines and the potential impacts of T+1.

The Working Group also discussed two potential versions of the R2 timeline, with feedback sought from industry on each approach. Considerations for testing phases, environment stability, functional readiness and potential overlaps of concurrent tasks were all included in the conversations.

The ASX Senior Project Manager advised there was interest in accommodating a peak volume day of testing, which will be taken away to consider and plan for.

Additionally, considerations that would feed into the test approach to planning were noted, including extended working hours to support the industry's offshore development teams, early transparency of the entry criteria and readiness tracking.

The ASX Senior Project Manager noted the working group's need to see more detailed timelines to aid in the resourcing and planning stages for each of the members and confirmed ASX's commitment to providing this at the next forum.

Member Discussion

The timeline for non-functional testing (NFT) was also raised by a Committee member, noting they were seeking an environment that was fully functional and stable prior to the commencement of any NFT. The Chair noted that the expanded timeline is expected to provide the detail required.

The market's response to the T+1 whitepaper was acknowledged as being a key inclusion to the Implementation and Transition Working Group, with the potential for further consultations to be held.

AGENDA ITEM 4: Scope objective backlog update

The ASX Senior Product Manager provided the following key updates:

- The business design document (BDD) for data and connectivity will be available once the holding balances feedback received has been incorporated; and
- Cum entitlement balances may be scheduled a little later than currently gazetted, which ties into the point raised earlier.

4.1 Holding Balances

The ASX Senior Product Manager noted that in the feedback received, the removal of holding balances on every message looks viable from a systems perspective, but that we will need to solution for how balances can be reconciled. An alternative approach with the same benefits will be explored, with the possibility of an API for holding balances. Further updates will be provided to the Committee.

4.2 Holding Adjustment Reason Codes

The ASX Senior Product Manager advised that a proposal is being formed in consultation with the market and noted that the engagement of Registries in undertaking internal reviews and looking for ways to reduce the usage has been beneficial and is greatly appreciated.

4.2.1 ETF Adjustment Reason Codes

The ASX Senior Product Manager confirmed codes are not currently available to support ETFs and that the introduction of one/some would be expected to reduce the use of the 'Miscellaneous' codes. Software providers have indicated this would not be a significant piece of work to accommodate, but noted testing would be required prior to deployment by

ASX. The suggestion is that these codes would be deployed as part of Release 1. If raised to ASX, additional code requests could also be assessed and implemented at this time.

4.3 Transaction Basis

The ASX Senior Product Manager noted that the requests to change the matching rules to no longer distinguish between on-market and off-market do not look to be possible due to Corporations law requirements. There are operational issues with this matching rule that a number of participants have highlighted which may best be discussed at a workshop.

Member Discussion

It was confirmed by a Committee member that further discussion would be welcomed as they believe the treatment of this matching field used very inconsistently across the market. The ASX Senior Product Manager committed to facilitating the discussion and inviting any interested parties.

4.4 Bank Account Details

In the context of Takeovers, the ASX Senior Product Manager highlighted that the phasing out of cheques raises a question around how investors would be paid when bank account details are aren't shared with the organisations making the payments. Three potential options for consideration were proposed to the Committee:

1. **Potential solution outside CHESS:** Changes permitting a bidder to request investor bank account details held with the target Issuer.
2. **Potential solution in CHESS Replacement:** Participant provides investor bank account details to the bidder on acceptance messages.
3. **Potential solution in current CHESS:** Participant provides investor bank account details to the bidder via an enhanced holding advice message.

Member Discussion

An industry body commented that any requirement to change the Corporations Act would result in significant delays, no matter how well supported the basis for the change is. This sentiment was echoed by another Committee member who noted this particular topic as being a point of discussion with Treasury for the last 10+ years. A Committee member noted their view to undertake investigations into all three options in parallel. The Chair suggested that option 2 would be the preferred option if option 1 was not viable.

4.5 House Client Segregation

The ASX Senior Product Manager noted January as being the time this was last discussed at a Working Group, but that conversations had continued on with the parties who expressed an interest in the potential feature. It was confirmed as now being in a state ready to include in Consultation Paper 2 but that it would also be discussed at the next Committee meeting to provide early visibility to members.

AGENDA ITEM 5: Industry engagement & consultation

The ASX Senior Product Manager provided the following key updates:

- Consultation Paper 1 (CP1) has now closed, with feedback being collated and analysed.
- Consolidated feedback to CP1 responses is expected to be provided by the end of June in conjunction with briefing the Cash Equities Clearing and Settlement Advisory Group.
- Partnership Program consultation on future Development Incentive Pool milestones has now closed, with feedback being collated and analysed.
- T+1 consultation is live in the market with feedback due 18 June.
- Consultation Paper 2 is currently being drafted and is scheduled for public release in Q3 2024.

The ASX Senior Product Manager then summarised the action items as being:

- 2024 May (1) - Schedule an ETF WG and revert to TC with the proposed schedule and/or outcome
- 2024 May (2) - Schedule an ISO Design WG and revert to TC with the proposed schedule and/or outcome
- 2024 May (3) - Schedule a forum to discuss the practicalities of populating the Transaction Basis field and revert to TC with the proposed schedule and/or outcome.

Member Discussion

No member feedback recorded.

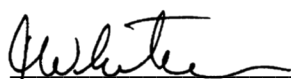
AGENDA ITEM 6: Observer Feedback

The independent meeting observer recognised the Committee's strong virtual attendance, noting that the meeting started on time, did not have any audio issues and covered a number of appropriate subjects within the allotted time, with a pleasing amount of feedback from participants. The independent observer highlighted an action item that had not been in the forward plan summary, being the workshop for the ETF adjustment codes.

Lastly, the Chair proposed that the next meeting be held in person for those able to attend.

The meeting closed at 3:17 PM

Signed as a correct record of the meeting.

A handwritten signature in black ink, appearing to read 'White', written over a horizontal line.

Chair

6 June 2024

Date