ASX
CHESS Replacement

Technical Committee

3 April 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

> Please mute yourself when not speaking

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  - Phone Conference ID: **981 632 307#**

> Presentation materials will be distributed after the meeting

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Important Information
Competition Law Reminder

> Committee 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.

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Agenda

01 – Welcome, open actions & feedback

02 – Project status

03 – Working group updates

04 – Scope Objective Updates

05 – Industry engagement & consultation

01 – Welcome

Open actions and member feedback

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Technical Committee
Open actions

> **2024 March (1) - Provide additional information with relation to the Proof of Technology (PoT) use cases**

  o Additional information is provided in agenda item 1.

> **2024 March (2) - Consider how T+1 considerations can be factored into the Technical Committee Working Group schedule.**

  o Additional information is provided in agenda item 3.

Open Actions

> **Background**

- TCS BaNCS MI technology stack has been proven to be performant and resilient.

- TCS BaNCS MI technology stack has been deployed on AWS cloud.

> **Purpose & Objectives**

The purpose of the PoT is to deploy an un-customised (as-is) TCS BaNCS MI on AWS cloud to validate a technology baseline. The PoT will have 3 key objectives:

- **Peak Volume:** That the selected technology stacks can meet the ASX peak volume requirements (incl. headroom) with a targeted focus on performance and configuration of Aurora PostgreSQL DB. This includes peak of peak volume testing and processing 15 million novated trades.

- **Sizing:** The required hardware sizing for the target state.

- **Fail Over:** That the selected technology stack meets the ASX RPO requirement of zero data loss in a fail-over scenario.

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Open Actions
2024 March (1) – Provide additional information around the Proof of Technology (PoT)

> **Proof of Technology (PoT) Scenarios**

  o The PoT will be executed over multiple milestones. Each test execution milestone will be having a set of test cases that it will perform. The first 2 milestones will be a peak volume test and 15 million novated trade load.

> **Business Scenarios**

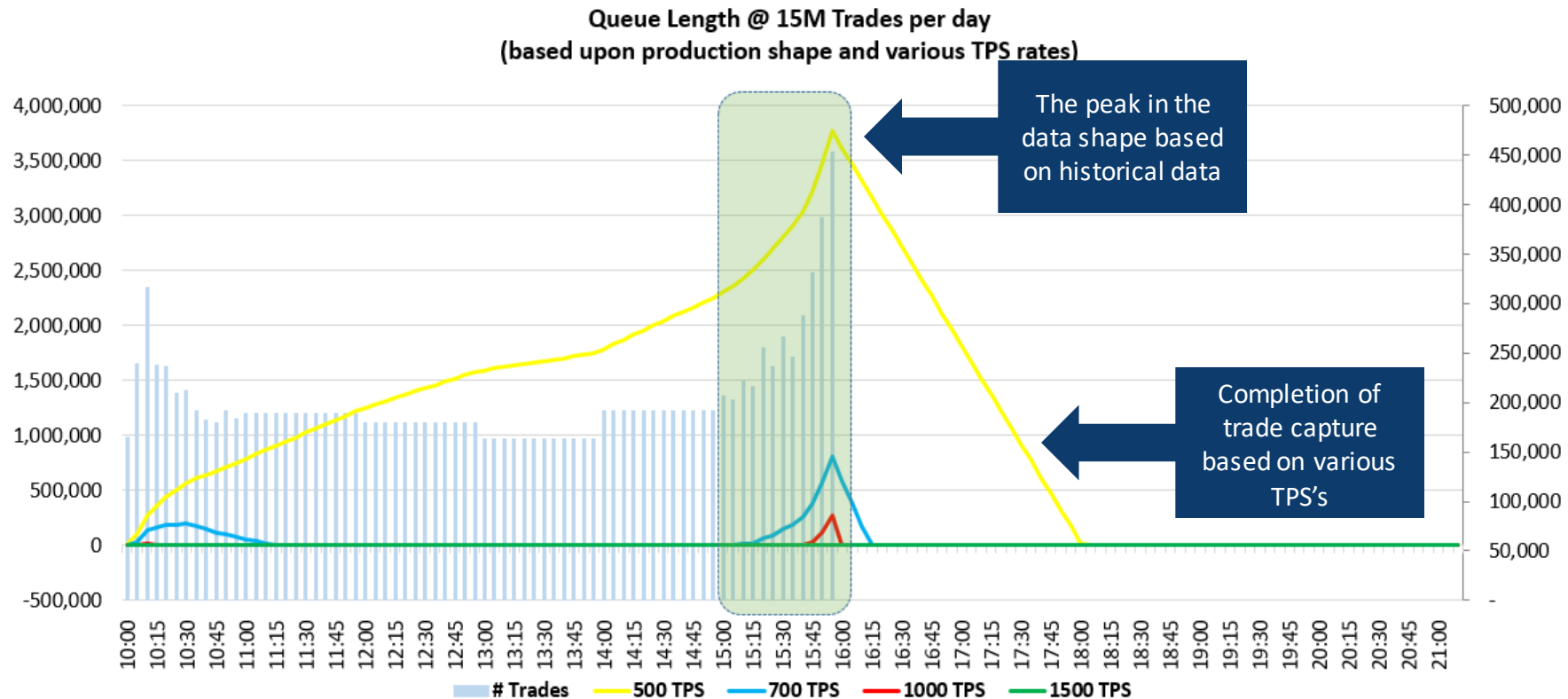| Scenario (in priority order)	Test Approach	Objective
1. Trade processing Inc. position management	• Run peak tests & various high-volume scenarios • Metrics to be produced separately for trade processing and position management	• Peak Volume • Sizing
2. Trade Settlement	• Run peak tests & various high-volume scenarios • Metrics to be produced separately for trade processing and position management	• Peak Volume • Sizing

> **Technical Scenarios**

Scenario (in priority order)	Test Approach	Objective
3. Fail-over	• Fault tolerance failover at individual components	• Fail Over

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> **Proof of Technology (PoT) – Milestone 1 : Peak Test**

  ○ The first milestone is a peak of peak volume test, in which 4 Mil novated trades are processed in an hour period.

Queue Length @ 15M Trades per day
(based upon production shape and various TPS rates)

The peak in the data shape based on historical data

Completion of trade capture based on various TPS's

Trades   500 TPS   700 TPS   1000 TPS   1500 TPS

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> **Proof of Technology (PoT) – Milestone 2 : 15 million novated trade process**

  o Milestone 2 is measuring the system performance to process the trades for a 15m novated trade day.
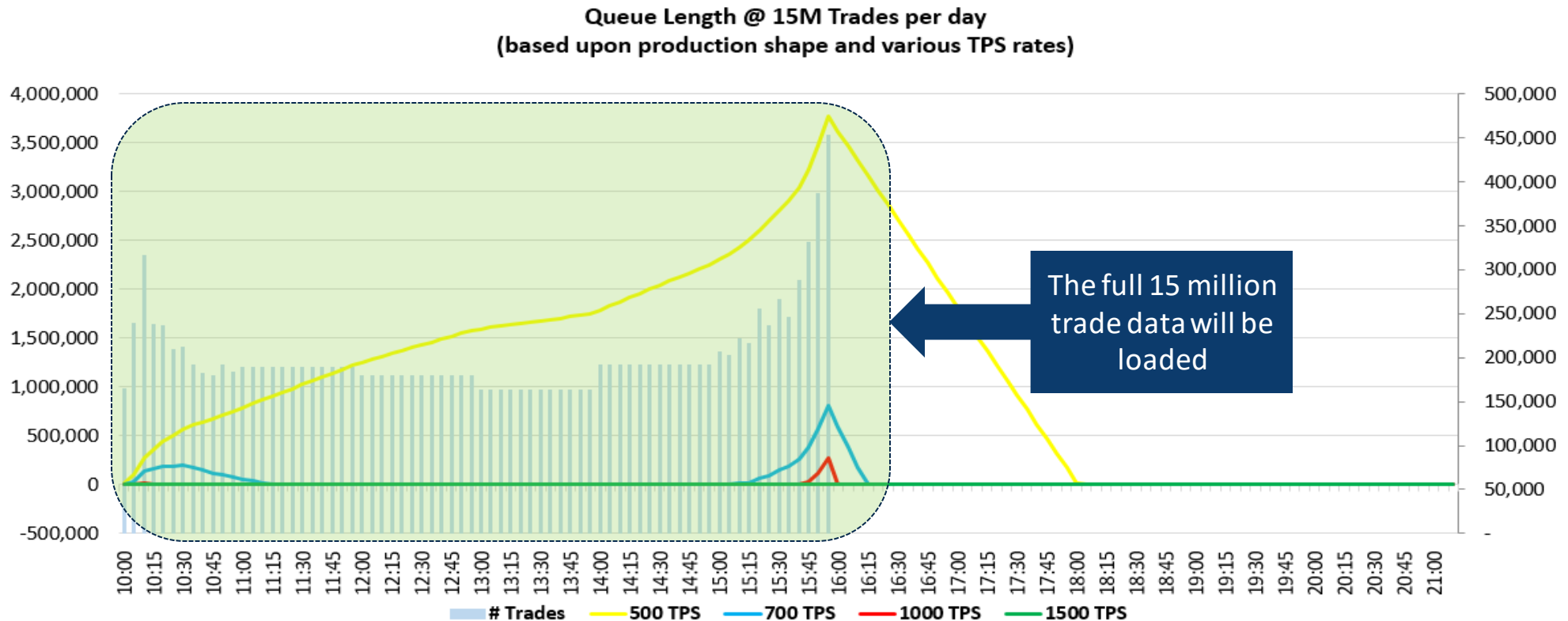
Queue Length @ 15M Trades per day
(based upon production shape and various TPS rates)

The full 15 million trade data will be loaded
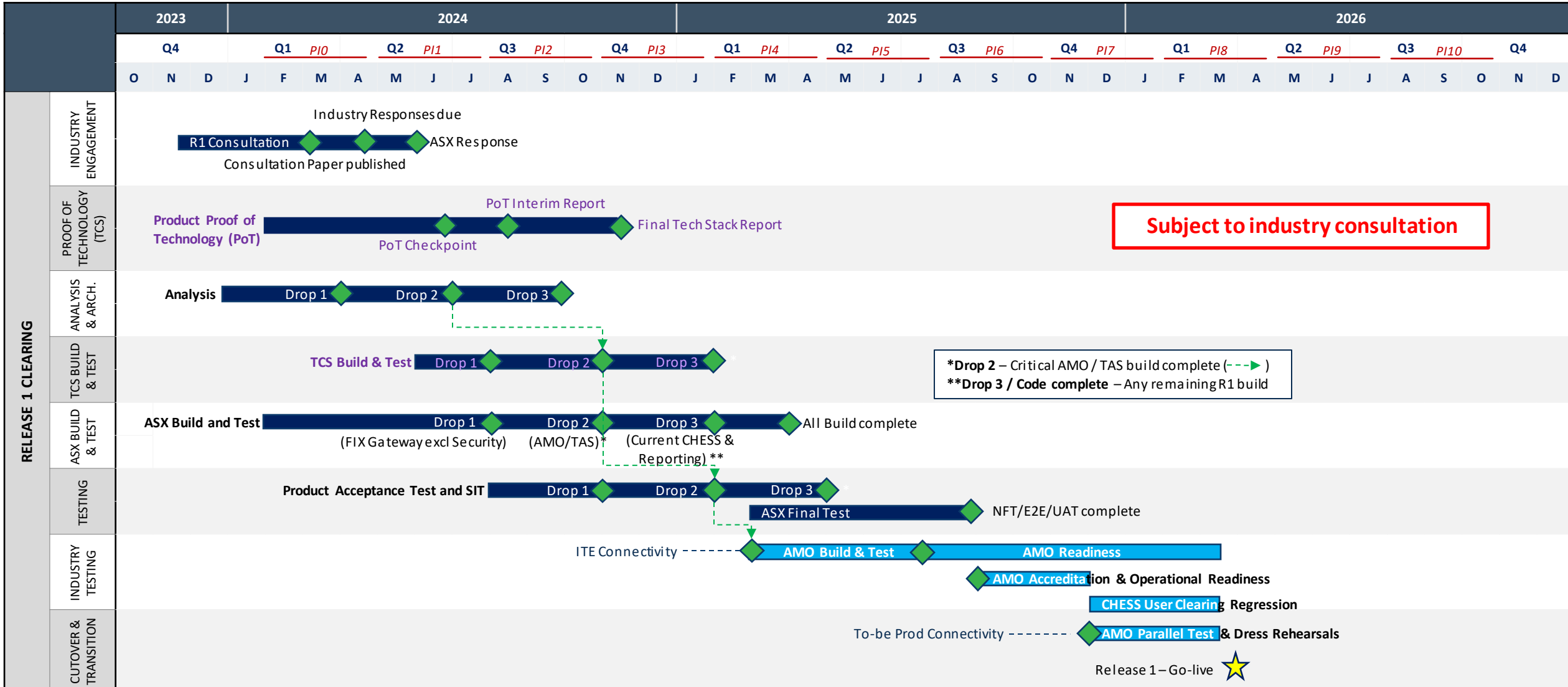
02 – Project status

> **Project updates**

The project continues to track green. Key updates include:

- TCS BaNCS base product has been installed in the ASX AWS environment.

- Drop 1 detailed requirements are in the process of being approved.

- Completed the deployment and initial testing of the FIX Gateway in AWS.

- Release 1 Consultation Paper published on 14 March 2024.

- Progress on the onshore arrival of key TCS partners.

- Commencement of Release 2 planning.

- Key learnings shared from the TCS site visit.

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02 – Project Risks
April 2024

> **Project risks**

Description	Mitigation	Impact Date	Residual Exposure	Recommendation / Progress	Status
T+1 impact to program timeline and / or costs	The project will monitor the market engagement and provide input as to the optimum plan across CHESS replacement and a T+1 cutover	28.06.24	Medium	Being managed via industry consultation.	Open
Dependency on cloud controls delivered by the Cloud Foundations project meeting the requirements for CHESS replacement, including the regulatory expectations for the migration of licensed cash equities clearing and settlement services to Cloud	The Cloud Foundations Project is delivering the Cloud Platform and a Cloud Assurance Framework to ensure the ongoing compliance with technology general controls and regulatory compliance	31.07.24	Medium	Detailed timing being added to the schedule (tasks, milestones and dependencies)	Open
Implementation of the solution on Cloud technologies	TCS will execute a prioritised set of use cases to give an early indication if any changes in the design are required	30.06.24	Medium	Finalisation of target technology stack and validating use cases for Proof of Technology.	Open
Delay to TCS resources relocating to Sydney	1. ASX are having a team of 6 people travel to India to limit impact on the solution analysis phase 2. Hours of cross-over between ASX and TCS (2pm-5pm) are being prioritised for TCS/ASX meetings	29.03.24	Medium	3 of 7 resources approved – onshore in early April Extended overlapping hours between Sydney and Chennai agreed	**Closed**
Insufficient Number of CHESS Legacy Test Environments to support current CHESS and CHESS Replacement.	Re-assess the number of test environments required: 1. Capture inventory of current environments and usage (Complete) 2. Revisit planned number of functional test environments (including peak) based on CHESS R delivery sequence into test (Complete) 3. Prioritise current environment availability based on CHESS program of work (Complete)	1.08.24	Medium	Current CHESS environment contention has been resolved and the required environments have been allocated to CHESSR.	**Closed**

Disclaimer: Relevant high-risk items have been included. Medium risk items are included where the inherent risk was high prior to mitigation.

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03 – Working Group updates

> **2024 March (2) - Consider how T+1 considerations can be factored into the Technical Committee Working Group schedule.**

- Given the potential impact of T+1 to the CHESS Replacement project scope and timelines, it is proposed that ASX facilitate working groups on the topic as part of the Technical Committee.

- These working groups would aim to help facilitate industry planning on the practical impacts, primarily in relation to C&S, if T+1 were to be desired by the market.

TO NOTE:

- **No decision has been made regarding a move to T+1.**

- The T+1 Working Group and Whitepaper are a separate engagement forum and are focused on the strategic decisions around whether the Australian market should consider moving to T+1.

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TC Working Group Schedule – T+1 Considerations (Open Action)

2024 March (2) – Consider how T+1 considerations can be factored into the Technical Committee Working Group schedule.

> **2024 March (2) - Consider how T+1 considerations can be factored into the Technical Committee Working Group schedule.**

Business Design Working Group
T+1 Impacted Scope & Functionality

2 May

Purpose

- To discuss the potential scope & functional changes that may be required to support a move to T+1.

Potential Topics:

- Batch Settlement timing and operational hours
- Priming and securities movement processes
- Matching processes and timeframes

Implementation & Transition Working Group
T+1 Transition Impacts

Early May

Purpose

- To discuss the potential impacts on CHESS Replacement timelines in relation to any transition to T+1 settlement.
- Industry test requirements & expectations

Note: No decision has been made regarding a move to T+1.

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Business Design

Working Group

27 March 2024

03 – Business Design – Data & Connectivity
Update from the 27 March Working Group

> **SWIFT Considerations**

  o SWIFT was offered as a connectivity channel in the previous iteration of CHESS Replacement project, however there was low take-up with only one user in ITE1/ITE2.

  o Survey results from 2023 indicate that there is low interest and take up for this channel.

  o The build and support costs are significant and are very sensitive to forecast take-up and volumes.

  o An Alliance Access solution is limited to 40/s per Participant and 100/s across all Participants.

  o Alternate and more costly solutions would be required in order to exceed Alliance Access limitations (e.g. MI Channel).

  o SWIFT as a connectivity channel increases the build, test and ongoing support complexity of the solution adding to overall project risk, consumption of technology resources and cost of future changes.

Based on low historical take-up, the survey results, the build sensitivity to forecast/actual users, and the principle of simplifying and rationalising access channels, we are proposing that SWIFT will not be offered as a connectivity channel for CHESS Users.

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03 – Business Design – Data & Connectivity
Update from the 27 March Working Group

> **Holding Balance - Current vs. Proposed state:**

Holding Balance Information (Current State)

- In CHESS, all confirmation messages against holdings contain:
  - **Unit Quantity**
  - **New Holding Balance**

- Inclusion of the **New Holding Balance** is problematic as:
  - All messages need to be processed sequentially and sequential order needs to be retained on inbound and outbound messages. This can cause bottleneck issues and inhibit scalability, as was observed as in the previous CHESS Replacement project.
  - It is not part of the ISO20022 standard in most cases requiring supplementary data and is not typically used in other markets.

- CHESS supports the ability to request balances or holding movements on an ad-hoc basis for a single HIN or set of HINs.

Holding Balance Information (Proposed)

- All confirmation messages against holdings will contain:
  - Unit Quantity (increase/decrease)

- This information can be used by back-office systems to update balances as transactions are received.

- Holding movement reporting can be made available to all users, to provide the ability to automatically reconcile HINs subject to a movement.

- Any reconciliation issues can be diagnosed and resolved via ad-hoc enquiry to the User Interface.

- This could be provided at end of day or at other key (e.g. after batch settlement).

- In the future API-based access to Holding Balances could be considered, either via the TCS BaNCS product, or ASX data platform

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03 – Business Design Working Group
Upcoming Sessions

	Proposed Topic	Objectives	Proposed Date	Applicable Users
-	Kick-off and Planning	-	11 December 2023	Technical Committee Members
1	Clearing Design – Trade Acceptance and Netting	4.1, 5.3	31 January 2024	AMOs, Clearing Participants, Software Providers
2	SRN Enquiries & Issuer Sponsored Holdings	1.3, 1.4	28 February 2024	Settlement Participants, Share Registries, Software Providers
3	Data & Connectivity	1.6	27 March 2024	Software Providers, Settlement Participants, Share Registries
4	T+1 Considerations for CHESS Replacement	NEW	2 May 2024	Settlement Participants, Software Vendors, Share Registries
-	Payments - to be continued via ESPPSC and BDWGs 8 and 9	~~3.2, 4.5~~	~~April 2024~~	~~Payment Providers, Settlement Participants, Share Registries~~
5	Settlement Design (Matching, Batch Settlement, Non-Batch DVP & Related Payments)	4.2, 5.3, 2.1, 2.2, 3.2	27 May 2024	Settlement Participants, Payment Providers, Software Providers
6	Registration Details & Investor Information	1.1, 3.6	June 2024	Settlement Participants, Share Registries, Software Providers
7	Corporate Actions - Cum Entitlement Balance Design Review	3.4, 5.5	~~April 2024~~ July 2024	Software Providers, Settlement Participants, Share Registries
8	Corporate Actions – DRP, Entitlements, Distribution Information & Related Payments	3.2, 3.3, 3.5, 3.7, 3.8, 4.5	July 2024	Settlement Participants, Share Registries, Software Providers, Payment Providers
9	Settlement Design cont... (Matching, Linking, Locking)	1.5, 2.1, 2.2, 2.6, 4.3, 4.4, 4.5	August 2024	Clearing Participants, Settlement Participants, Software Providers
10	Market Claims (Diary Adjustments)	3.1	September 2024	Settlement Participants, Software Providers

Note: indicative order, subject to change based on industry inputs and further planning. Multiple sessions may be required per topic.

04 – Scope objectives backlog update

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> **Proceed to CHESS Replacement design evaluation and consultation Scope Objectives:**

○ The following Scope Objectives were identified as items that should proceed to CHESS Replacement design evaluation and consultation

Functionality	Ref	Scope Objective	Status	Update
Changes to Netting Process	4.1	Review the design for netting in the context of the solution	January BDWG	Business Design Document prepared, feedback received and incorporated.
Interoperability	5.3	Ensure the solution is designed to enable potential future interoperability between CCPs, SSFs and/or sub-registers	January BDWG (Clearing) May BDWG (Settlement)	Considered in the BDD in relation to clearing. Further engagement planned for May BDWG on settlement design
SRN enquiry and validation	1.3	Implement a faster and more efficient SRN enquiry process	February BDWG	BDWG completed, draft BDD completed, and feedback is being accepted. Final draft to be shared following the TC.
Issuer sponsored improvements	1.4	Reduce settlement risk in relation to issuer sponsored sales	February BDWG	As above
Payments	2.8	Payment processes for corporate actions, batch and non-batch DvP settlement processes	March ESPPSC, April BDWG July/August BDWG	Initial Payment Providers commenced via March ESPPSC, including a survey. Further discussions including participants planned in dedicated sessions on Settlement and Corporate Actions
Continuous holding balance	1.6	Provide more efficient, reliable and faster access to holding information	March BDWG	BDWG held, BDD in drafting
Registry HIN Validation	1.7	Provide the ability for Share Registries to validate account details to facilitate CHESS allotment of investor accepted offers	March BDWG	BDWG held, BDD in drafting.
Changes to settlement process	4.2	Review the design for settlement in the context of the solution	May BDWG	Planned for May BDWG on settlement design
Risk Enhancements	4.7	Risk and default management review and potential ASX risk enhancements	May BDWG	Planned for May BDWG on settlement design
Bilateral Matching Improvements	2.1	Reduce operational risk by ensuring participants are able to submit and match transactions in the system as soon as practical whilst minimising the likelihood of incurring a failed settlement (e.g. being able to separately match and schedule a transaction)	May BDWG August BDWG (cont.)	Planned for May and August BDWGs on settlement instructions (matching, non-batch DVP, linking, locking)
Bilateral Matching Improvements	2.2	Reduce operational risk by minimising mismatches and failed matches by increasing the data sharing and matching fields available and/or making use of information available in upstream systems	May BDWG August BDWG (cont.)	Planned for May and August BDWGs on settlement instructions (matching, non-batch DVP, linking, locking)
Registration details and investor information	1.1	Standardise, improve and better synchronise the data sharing between participants and share registries	June BDWG	Planned for June BDWG on registration details and investor information

Proceed to CHESS replacement design

Note: indicative order, subject to change based on industry inputs and further planning. Multiple sessions may be required per topic.

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> **Proceed to CHESS Replacement design evaluation and consultation Scope Objectives:**

  o The following Scope Objectives were identified as items that should proceed to CHESS Replacement design evaluation and consultation

Functionality	Ref	Scope Objective	Status	Update
Cum entitlement balances	5.4	Review use cases for Cum Entitlement balances and assess its continued effectiveness for the Australian market	~~April BDWG~~ July BDWG	New objective to evaluate opportunities to improve or re-design the current entitlement transfer process in context of the solution.
Corporate action election and acceptance processing	3.2	Provide standardised straight through processing capability for corporate action elections and cost-effective associated payments	July BDWG	Planned for July BDWG on corporate actions (DRP, entitlements and distribution information). Engagement on Payments via ESPPSC starting March.
Corporate action election and acceptance processing	3.3	Reduce operational risk in relation to DRP standing instructions	July BDWG	Planned for July BDWG on corporate actions (DRP, entitlements and distribution information)
Electronic notification of payment advice	3.5	Provide standardised electronic transmission of corporate action distribution information to create opportunities for automation and process improvement.	July BDWG	Planned for July BDWG on corporate actions (DRP, entitlements and distribution information)
Bid Offeror Automation	3.10	Provide an electronic Bid Offeror finalisation process in relation to Takeovers & Buybacks.	July BDWG	Planned for July BDWG - Corporate Actions (DRP, entitlements and distribution information)
Linking Bilateral Settlements	4.3	Settlement Linking – review and evaluate solution design	August BDWG	Planned for August BDWG on settlement instructions (matching, non-batch DVP, linking, locking)
Settlement Lock for CHESS Holdings	4.4	Settlement Locking – review and evaluate solution design	August BDWG	Planned for August BDWG on settlement instructions (matching, non-batch DVP, linking, locking)
Non-batch DvP Bilateral Settlement	4.5	Bilateral Non-Batch DvP Settlement – review and evaluate in the context of payment processes	August BDWG	Planned for August BDWG on settlement instructions (matching, non-batch DVP, linking, locking). Engagement on Payments via ESPPSC starting March.
Electronic Dividend Claims	3.1	Review and enhance the current processes for automated claims (diary adjustments) to ensure it continues to meet the market needs.	September BDWG	Planned for September BDWG on market claims (diary adjustments)

Proceed to CHESS replacement design

Note: indicative order, subject to change based on industry inputs and further planning. Multiple sessions may be required per topic.

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04 – Current CHESS
Prioritised backlog

> **Evaluate in CURRENT CHESS Scope Objectives:**

> o The following Scope Objectives were identified as items that should proceed to CHESS Replacement design evaluation and consultation (and where possible, evaluate the opportunity to make improvements in current CHESS)

Functionality	Ref	Scope objectives for evaluation in current CHESS	Status	Update
Corporate actions – holding adjustments	3.7	Ensure holding adjustment reason codes are up to date and being used correctly	March TC for update	Potential improvements in current CHESS presented in March TC. Awaiting feedback from Registries.
ETF Creations & Redemptions	1.5	Reduce operational risk in relation to the current ETF creation/redemption workflow	March TC for update	Potential improvements in current CHESS to be evaluated alongside 3.7
Corporate actions – bank account information	3.6	Evaluate whether ASX can help with the transmission of bank account information in relation to bid offers	May TC for update	Potential improvements in current CHESS to be presented in May TC
Corporate actions – sub-register state	3.8	Make sub-register state more readily available to participants to help improve processes in relation to de-listings	Future TC	Factored into CHESS Replacement scope Potential improvements in current CHESS to be presented in future TC (TBD)
Settlement Improvements	2.6	Scheduled Settlement CHESS to CHESS Transfer Request (MT107) - support usage within a participant group structure	Future TC	Factored into CHESS Replacement scope Potential improvements in current CHESS to be presented in future TC (TBD)

Evaluate in current CHESS

Note: indicative order, subject to change based on industry inputs and further planning. Multiple sessions may be required per topic.

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04 –Further Consideration Scope Objectives
Prioritised backlog

> **Further Consideration Scope Objectives:**

  o The following Scope Objectives will remain with the Technical Committee for further consideration until a time where they can be brought back to the Business Committee for recommendation to ASX Clear and ASX Settlement Boards.

Further consideration required

Functionality	Ref	Scope objectives in backlog for further consideration	Status	Update
House/Client Segregation	*5.2	House/client segregation consultation and potential impacts to the CHESS Replacement Project	January BDWG	Discussed in the 31 January BDWG on Clearing design – Trade acceptance and netting Further bilaterals required, followed by further working groups if needed.
Standing Instructions	2.3	Reduce operational overhead in relation to payment provider authorisations by allowing for automated approvals in the system within cash limits.	March ESPPSC	Ongoing review in the ESPPSC
Preliminary Payment Notifications	2.4	Provide more certainty by enabling more frequent and/or configurable access to preliminary payment data.	March ESPPSC,	Ongoing review in the ESPPSC
Bilateral Matching Improvements	2.5	Bilateral Matching – use of Transaction Basis (on and off-market)	~~April TC for update~~ May TC for update	Deferred to May TC to permit additional time for ASX legal & compliance review.
Registration Details and Investor Information	1.2	Foreign restricted securities - review and simplify the current processes for holdings and transfers	Future TC	To be presented at a future TC, timing to be advised
Settlement Improvements	2.7	Deferred settlement securities – review process to ensure/improve settlement efficiencies	Future TC	To be presented at a future TC, timing to be advised
Cum Entitlement Balance Transfer	3.4	Evaluate opportunities to facilitate the transfer of entitlements (pre and/or post Record Date) ensuring this does not impact issuer schedules.	On hold	To be assessed based on outcomes of April BDWG on Cum Entitlement Balances
Proxy voting	3.9	Standardised electronic proxy voting	Future backlog	Improvements in CHESS Replacement to be evaluated at a later stage

* New objective(s) added since the Business Committee recommendation in Oct 23.

Note: indicative order, subject to change based on industry inputs and further planning. Multiple sessions may be required per topic.
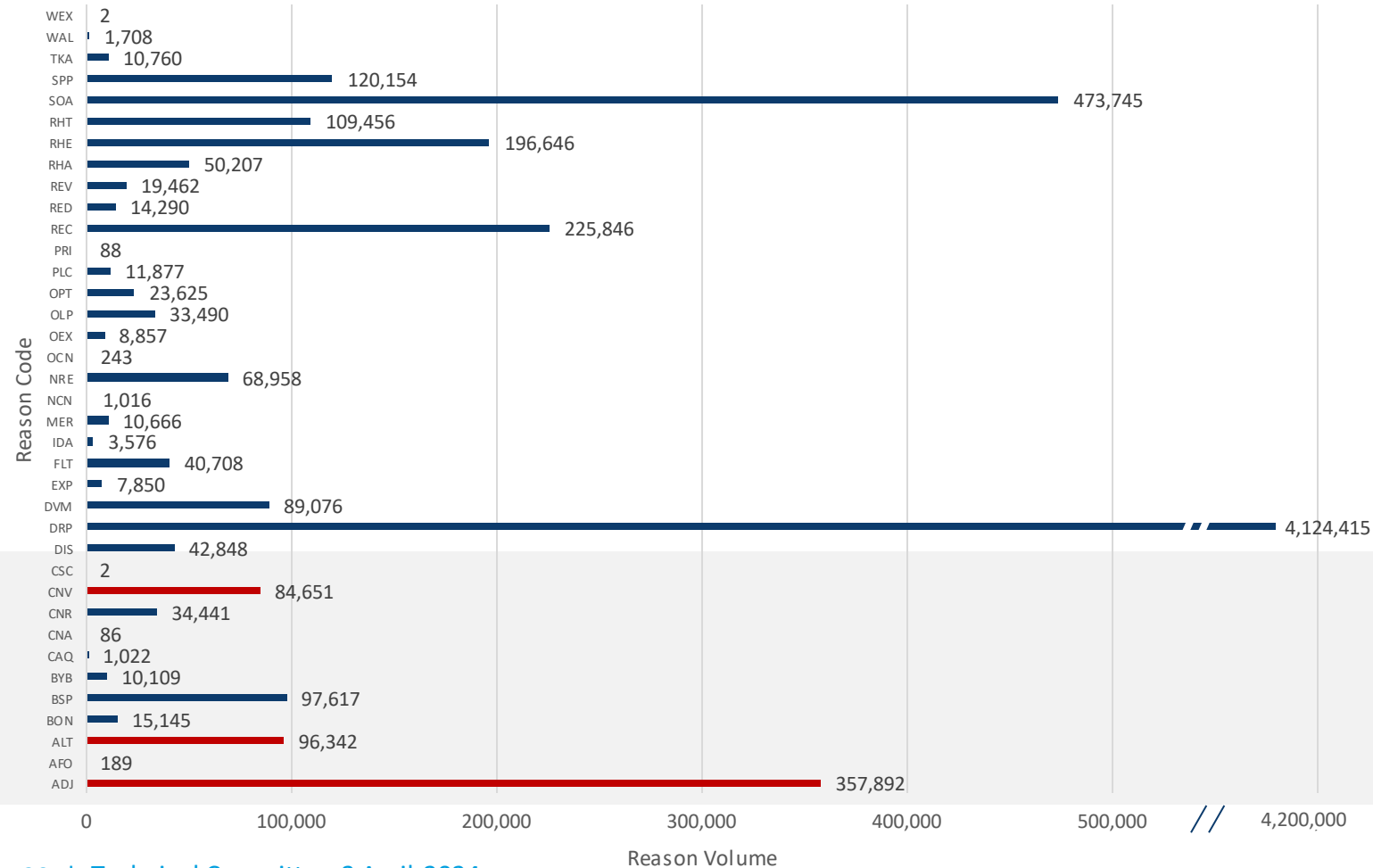
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04 – Scope objectives backlog update

Holding Adjustment Codes

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04 – Reason code usage for Holding Adjustment (MT425)
To notify an adjustment to a holding balance

Count by Reason Codes used on MT425s during Sep 22 to Nov 23 (Inclusive)

Reason Code	Count
WEX	2
WAL	1,708
TKA	10,760
SPP	120,154
SOA	473,745
RHT	109,456
RHE	196,646
RHA	50,207
REV	19,462
RED	14,290
REC	225,846
PRI	88
PLC	11,877
OPT	23,625
OLP	33,490
OEX	8,857
OCN	243
NRE	68,958
NCN	1,016
MER	10,666
IDA	3,576
FLT	40,708
EXP	7,850
DVM	89,076
DRP	4,124,415
DIS	42,848
CSC	2
CNV	84,651
CNR	34,441
CNA	86
CAQ	1,022
BYB	10,109
BSP	97,617
BON	15,145
ALT	96,342
AFO	189
ADJ	357,892

X-axis: Reason Volume (0, 100,000, 200,000, 300,000, 400,000, 500,000 // 4,200,000)

Reason Codes

Code	Description
WEX	Warrant Exercise
WAL	Warrant Allotment
TKA	Takeover Consideration Allotment
SPP	Share Purchase Plan
SOA	Scheme of Arrangement
RHT	Renounceable Rights Issue Allotment
RHE	Renounceable Rights Entitlement Allotment
RHA	Renounceable Rights Accepted
REC	Reconstruction
PLC	Placement
OCN	Options Conversion
OLP	Option Lapsed
OEX	Option Exercised
OPT	Option Allotment
NRE	Non-Renounceable Issue Allotment
PRI	Non Pro Rata Balance
RED	Miscellaneous Redemption
CNV	Miscellaneous Conversion
ALT	Miscellaneous Allotment

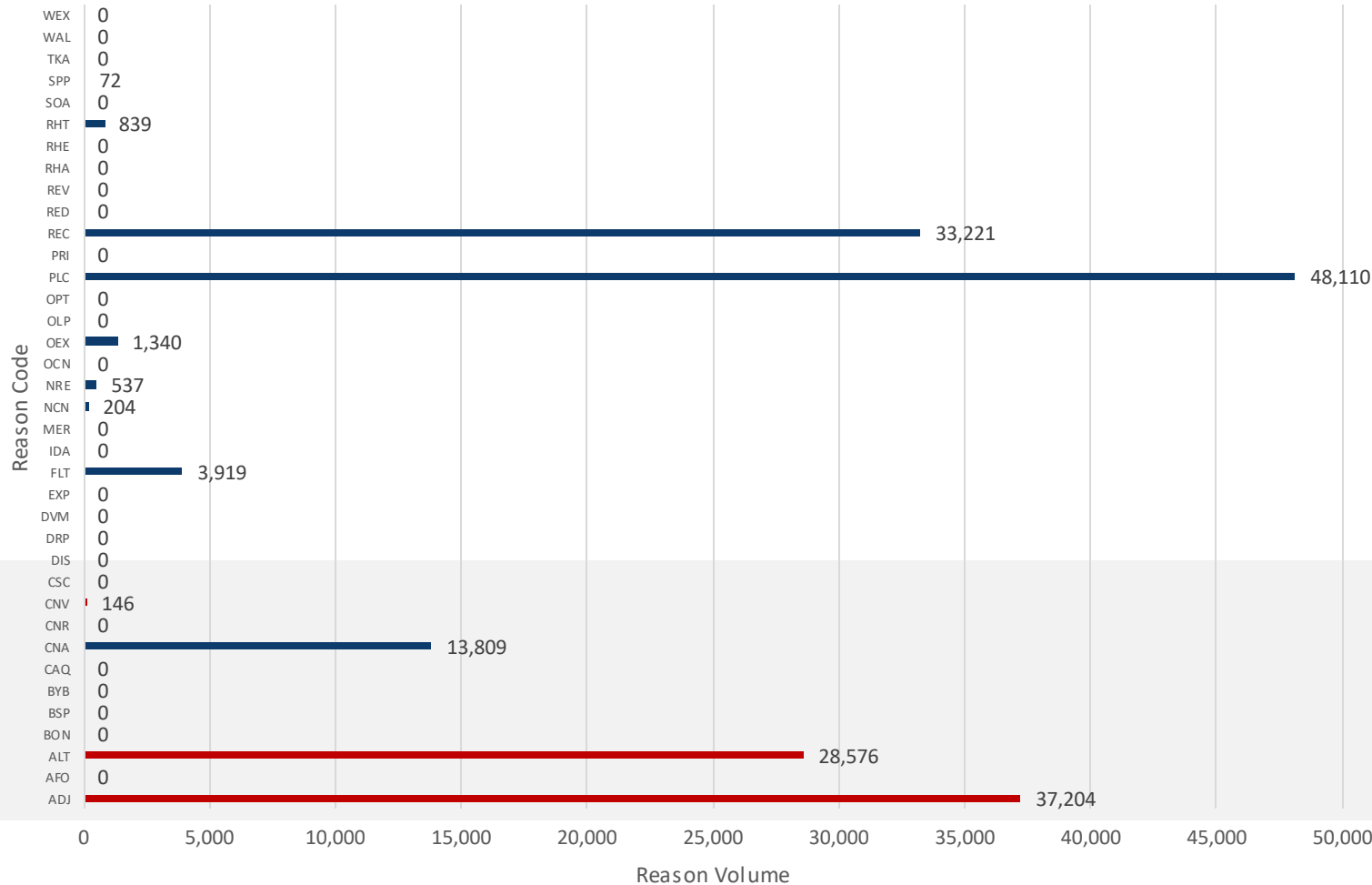| Code	Description
EXP	Imminent Expiry of Security used as Collateral
IDA	Forfeiture of Partly Paid Shares
FLT	Float
DRP	Dividend Plan Allotment
DVM	Divestment
DIS	Distribution in Specie
CNR	Convertible Note Redemption / Maturity
NCN	Convertible Note Conversion
CNA	Convertible Note Allotment
CAQ	Compulsory Acquisition by Offeror
MER	Company Merger
CSC	CHESS Subregister Closed
BYB	Buy-Back
BSP	Bonus Share Plan
BON	Bonus
REV	Allotment Reversal
AFO	Adjustment of Foreign Ownership
ADJ	Adjustment

Proposal to reduce usage of CNV, ALT and ADJ

Reason codes CNV, ALT and ADJ account for ~8% (538,885) of total MT425 adjustments.

Total of 6,387,065 transactions over a 15 month period.

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Count for Reason Codes used on MT421s during 26-Sep -22 to Dec 23 (Inclusive)

Reason Code (y-axis) / Reason Volume (x-axis):

Reason Code	Count
WEX	0
WAL	0
TKA	0
SPP	72
SOA	0
RHT	839
RHE	0
RHA	0
REV	0
RED	0
REC	33,221
PRI	0
PLC	48,110
OPT	0
OLP	0
OEX	1,340
OCN	0
NRE	537
NCN	204
MER	0
IDA	0
FLT	3,919
EXP	0
DVM	0
DRP	0
DIS	0
CSC	0
CNV	146
CNR	0
CNA	13,809
CAQ	0
BYB	0
BSP	0
BON	0
ALT	28,576
AFO	0
ADJ	37,204

Reason Codes

Code	Description
WEX	Warrant Exercise
WAL	Warrant Allotment
TKA	Takeover Consideration Allotment
SPP	Share Purchase Plan
SOA	Scheme of Arrangement
RHT	Renounceable Rights Issue Allotment
RHE	Renounceable Rights Entitlement Allotment
RHA	Renounceable Rights Accepted
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PLC	Placement
OCN	Options Conversion
OLP	Option Lapsed
OEX	Option Exercised
OPT	Option Allotment
NRE	Non-Renounceable Issue Allotment
PRI	Non Pro Rata Balance
RED	Miscellaneous Redemption
CNV	Miscellaneous Conversion
ALT	Miscellaneous Allotment

Proposal to reduce usage of CNV, ALT and ADJ

Reason codes CNV, ALT and ADJ account for ~40% (65,926) of total MT421 adjustments.

Total of 167,977 transactions over a 15 month period.

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04 – Suggested changes for discussion
Reduce usage of miscellaneous reason codes

ASX is requesting feedback regarding any use cases that are outside of the current reason code list.

o   We would like to reduce usage of the 3 miscellaneous codes, working with registries to identify if new codes need to be added. This provides opportunities for the industry to realise benefits prior to Release 2, with minimal changes to existing workflows.

o   We plan to start contacting registries individually on this topic in the coming weeks with a view to better understanding current usage of the miscellaneous codes and to understand how we can help reduce their usage.

Proposal:

<u>Reduce or remove</u> **the usage of three miscellaneous holding adjustment reason codes:**

1.   *ADJ* – **Miscellaneous Adjustment:**   Used where no specific reason code is applicable (e.g. unusual corporate actions)

2.   *ALT* – **Miscellaneous Allotment:** Used for allotment of securities where no specific reason code is applicable.

3.   *CNV* – **Miscellaneous Conversion:** Used for conversions of securities other than convertible notes.

<u>Add</u> **new holding adjustment reason codes (where identified):**

1.   *ETF* – **Exchange traded Fund**

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05 – Industry engagement & consultation

The following represent key areas for feedback requested within Consultation Paper 1:

1. **Staged implementation:**

   o the proposal to separate the CHESS Replacement Project into two stages, Release 1 (Clearing) and Release 2 (Settlement, Subregister).

2. **Design, scope, and schedule for Release 1 (Clearing)**

3. **Release 1 Industry Testing approach:**

   o whether the scope or approach for the industry test phases require change to ensure each are appropriate and fit for purpose for AMOs, C&S Participants and Software Providers.

4. **Release 1 Industry Testing duration:**

   o for AMOs, an indicative estimate of the time required to complete build and test and prepare for Accreditation and Operational Readiness. For C&S participants, an indicative estimate of the time required to complete regression testing for impacted messages.
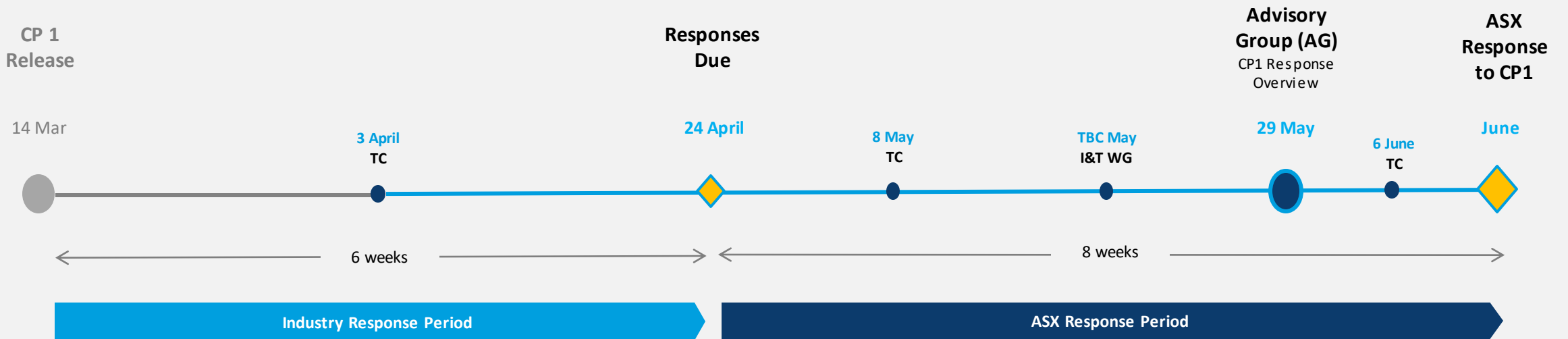
5. **Release 1 Go Live Readiness:**

   o i.e. any processes in addition to Implementation Dress Rehearsals and Disaster Recovery Testing that would assist AMOs preparing for Release 1 go-live?

05 – Public consultation
Key dates for Consultation Paper 1

High level Consultation Paper 1 timeline:

CP 1 Release

Responses Due

Advisory Group (AG)
CP1 Response Overview

ASX Response to CP1

14 Mar

3 April
TC

24 April

8 May
TC

TBC May
I&T WG

29 May

6 June
TC

June

6 weeks

8 weeks

Industry Response Period

ASX Response Period

Note: indicative plan as of April 2024.

05 – Forward plan
CY2024 Committee Schedule

TC Meeting	Date	Time
May meeting	Wednesday 8 May	2pm – 4pm
June meeting	Thursday 6 June	2pm – 4pm
July meeting	Wednesday 10 July	2pm – 4pm
August meeting	Wednesday 7 Aug	2pm – 4pm
September meeting	Wednesday 11 Sept	2pm – 4pm
October meeting	Wednesday 9 Oct	2pm – 4pm
November meeting	Wednesday 6 Nov	2pm – 4pm
December meeting	Thursday 5 Dec	2pm – 4pm

BC Meeting	Date	Time
June meeting	Wednesday 26 June	12pm – 2pm
September meeting	Wednesday 18 Sept	12pm – 2pm
December meeting	Wednesday 11 Dec	4pm – 6pm

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Q&A

Observer feedback

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Appendix

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Scope Objective Industry Feedback Recap
Holding adjustment codes

3.7 Corporate Action Efficiencies
Ensure holding adjustment reason codes are up to date and being used correctly

Problem

- Inconsistencies in the reason codes used in CHESS adjustment messages makes it difficult for participants to understand why an adjustment has been made.
- The previous CHESS Replacement project had addressed this issue with new holding adjustment reason codes, the problem is in relation to an interim solution required for current CHESS.
- Manual operational and technical processes are required when participants receive holding adjustments without a specific reason code.

Proposed Solutions

- Review current list of holding adjustment reason codes and their usage.
- Refine the list of holding adjustment reason codes to ensure all known use cases are covered.
- Proposal to update and add new holding adjustment reasons so the intention is clear why a holding adjustment has been made.
- Ensure reason codes used are aligned to workflows where a reason code exists.

Business Benefits & Risks

Business Outcomes/Benefits

- Having consistent use of reason codes will increase efficiency.
- Will provide greater visibility to Participants for adjustments made to holdings.
- Reduction in overhead processes due to manual rectification of adjustments.

Risk/Challenges
- Operational and technical considerations.

1.5 ETF Creations and Redemptions
Reduce operational risk in relation to the current ETF creation/redemption workflow

Problem

- There are inefficiencies in the current ETF creation and redemptions process.
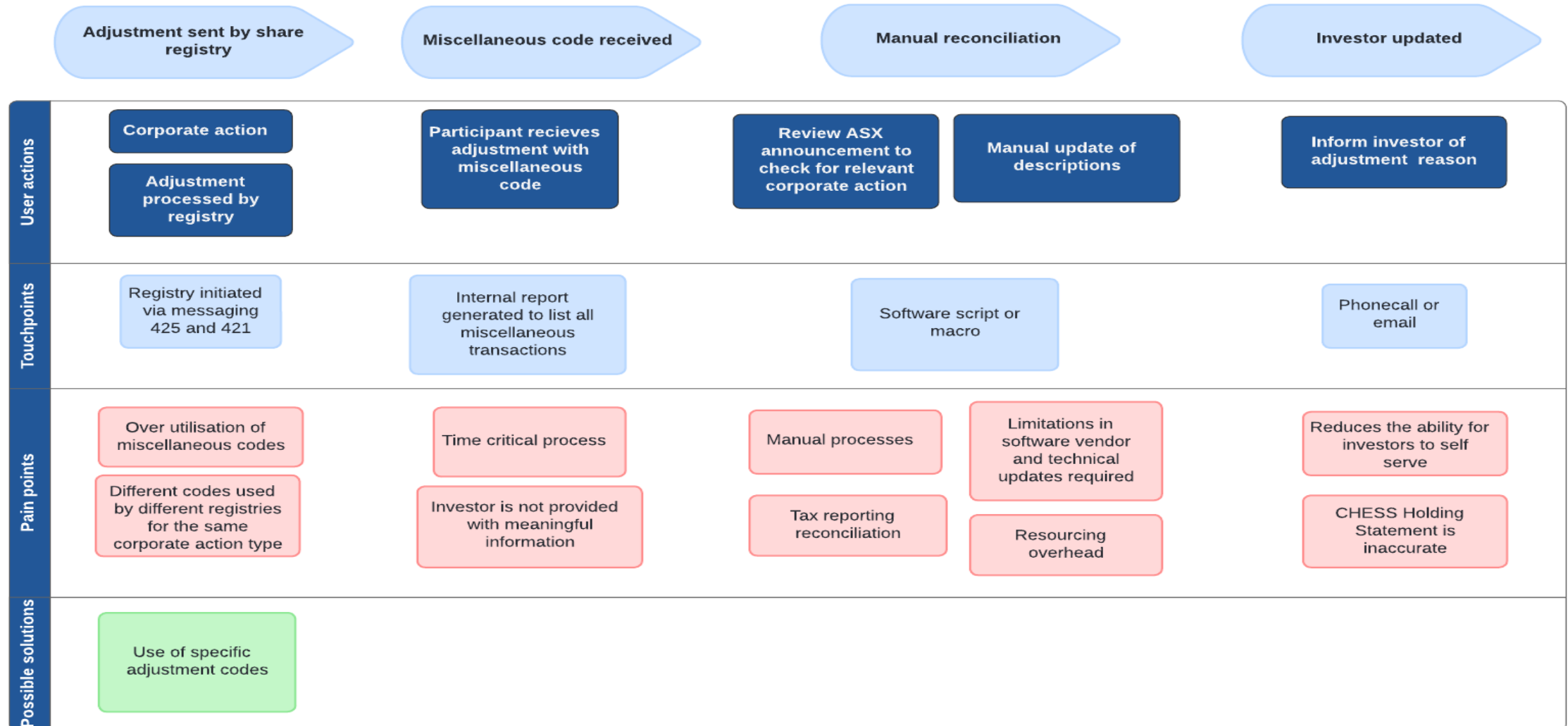
Proposed Solution

- Proposal for the introduction of a new reason code for ETF created holding adjustments so Participants are aware of why the holding adjustment occurred.

Business Benefits & Risks

- Improve operational efficiency in relation to ETF transactions.

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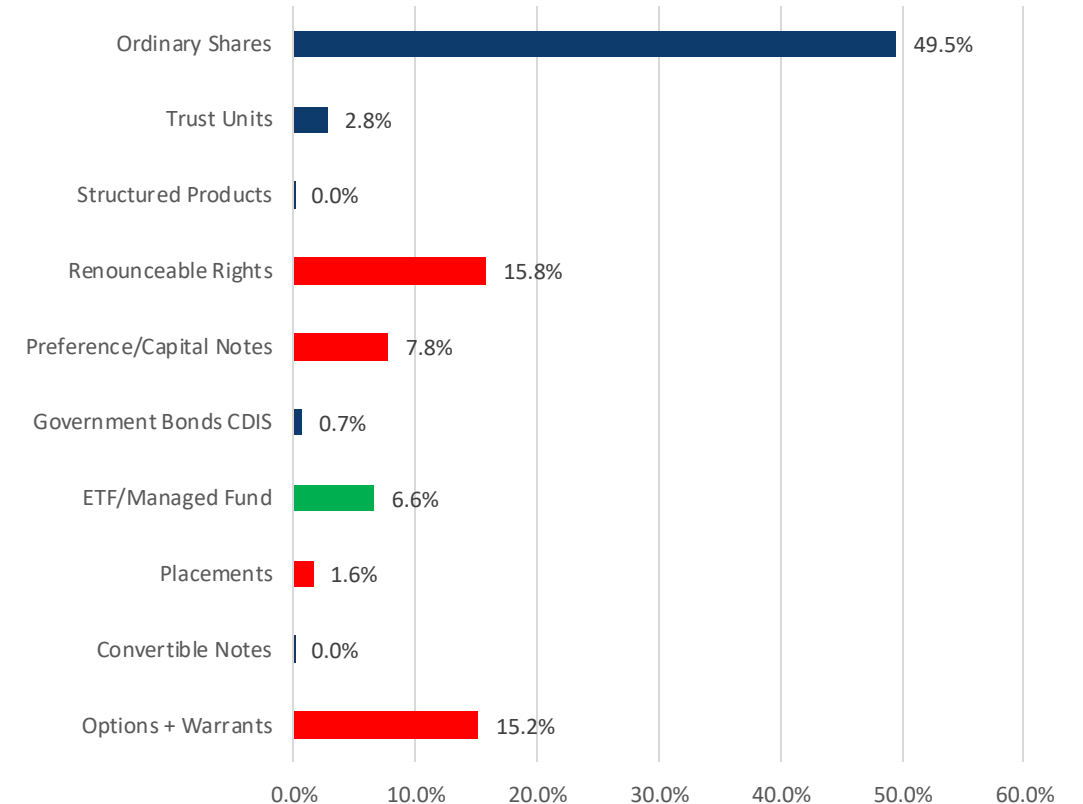# Customer user journey
Miscellaneous holding adjustment transaction

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MTD425 ADJ Statistics
Use of ADJ by volume and security type

Top 5 Holding Adjustments by volume between Sep 22 to Nov 23

Date	Holding Adjustment Volume	Adjustment Announcement	Code used	Alternative code available?
15/12/2022	23,592	Scheme of arrangement implemented	ADJ	SOA – Scheme of arrangement
21/10/2022	11,215	Transfer of shares due to voluntary administration	ADJ	New code required?
07/06/2023	16,213	Non renounceable entitlement offer	ADJ	NRE – Non renounceable issue offer
28/11/2023	11,932	Scheme of arrangement implemented	ADJ	SOA – Scheme of arrangement
09/06/2023	27,790	Redemption of Undated Capital Notes	ADJ	RED – Miscellaneous Redemption

% of ADJ Transactions by Security Type

Security Type	%
Ordinary Shares	49.5%
Trust Units	2.8%
Structured Products	0.0%
Renounceable Rights	15.8%
Preference/Capital Notes	7.8%
Government Bonds CDIS	0.7%
ETF/Managed Fund	6.6%
Placements	1.6%
Convertible Notes	0.0%
Options + Warrants	15.2%

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Suggested changes for discussion
Reduce usage of miscellaneous reason codes

ASX is requesting feedback regarding any use cases that are outside of the current reason code list.

○ In the previous CHESS Replacement project, the proposal was to remove 7 existing holding adjustment codes and add 4 new ISO codes.

○ The suggested changes to be discussed for current CHESS are to reduce or remove the usage of 3 miscellaneous codes and add 1 new code. This provides opportunities for the industry to extract resourcing and automation benefits prior to Release 2, with minimal changes to existing workflows.

Proposal:

<u>Reduce or remove </u>the usage of three miscellaneous holding adjustment reason codes:

1. *ADJ* – **Miscellaneous Adjustment:**   Used where no specific reason code is applicable (e.g. unusual corporate actions)
2. *ALT* – **Miscellaneous Allotment:** Used for allotment of securities where no specific reason code is applicable.
3. *CNV* – **Miscellaneous Conversion:** Used for conversions of securities other than convertible notes.

<u>Add </u>one new holding adjustment reason code:

1. *ETF* – **Exchange traded Fund**
   - The new code would be used for the creation or redemption of exchange traded fund related units.
   - This is intended to be a pass through value that will not drive any business logic.