



# Broadridge (Australia) Pty Ltd

## **ASX's Replacement of CHES for Equity Post-Trade Services** Response to ASX Consultation Paper

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## 1. Executive Summary

Broadridge welcome the opportunity to comment on the ASX's replacement of CHES for equity post-trade services. Broadridge support any market initiative that will have a positive impact on the general efficiency of the market and be of benefit to the clearing participants of that market.

Broadridge intend to work closely with our clients and industry representatives to consult and advice based on our experience in Australia and other markets both regionally and globally. Specifically, Broadridge has in-depth experience in multiple markets on the adoption and use of ISO 20022 and is invested in multiple projects to bring distributed ledger technology to market across the globe.

This document includes responses from Broadridge to the questions raised in the consultation paper published on 19<sup>th</sup> September 2016 by ASX, available online here:  
<http://www.asx.com.au/documents/public-consultations/ASX-Consultation-Paper-CHES-Replacement-19-September-2016.pdf>

## 2. Broadridge Company Overview

Broadridge is the leading provider of investor communications and technology-driven solutions for wealth management, asset management and capital markets firms. We help clients drive operational excellence to manage risk, accelerate growth and deliver real business value. Our technology-driven solutions power the entire investment lifecycle, enabling our clients to successfully manage the complexity and operational requirements of today's capital markets.

With revenues of over US\$4 billion delivered by over 7400 associates located across more than 55 offices globally, Broadridge provides an integrated portfolio of financial systems applications and services to meet each of our client's unique needs.

Broadridge has an extensive client base in Australia and continues active investment in a roadmap of products and services to support the evolving Australian market.

### 3. Consultation Question Responses

The following responses have been provided in relation to the questions raised in the ASX paper. The responses are provided by Broadridge (Australia) Pty Ltd. As Broadridge is not a participant but a vendor, some questions are not directly relevant to Broadridge, and these are marked as such as.

**Q1. Are there any other key business functions provided by CHES that have not been identified in this paper that should be supported by the system that replaces CHES? Explain the importance and value of any such business functions to you.**

#### **Bulk Transfers**

CHES provides facilities for bulk transfers of clients and positions between participants via the change of controlling PID process named Appendix H, where MT252 and MT222 messages used for HIN transfers and MT502, MT520 and MT522 messages are used for position transfers.

In the case of large migrations this process can be expensive in terms of messaging costs and managing what can be a very long running process.

The new solution should offer alternatives to bulk-messaging for these situations, for example file-transfer, separate asynchronous queues or statement-type messages. This lower cost and more robust mechanism will significantly streamline and de-risk migrations.

#### **Client Registrations**

CHES supports client workflows to register clients as security holders. There is interest in how the replacement model would treat KYC/AML requirements and the impact this would have on the registration process.

#### **CHES as a messenger between the broker and the registry**

There exist a number of workflows in which CHES acts as a messaging hub between the broker and the registry. A well-defined and robust process and management of this messaging is important to reducing error rates in processing certain CHES message types.

**Q2. What are your views on ASX implementing only a limited suite of business function and service enhancements in the replacement of CHES, in order to minimise risk and disruption to the market?**

Broadridge clients have placed their priority as the continued operation of the full-set of functions provided by CHES.

Where introducing new functions or enhancements at a later stage would introduce “throwaway” work and increase the costs of later re-work, Broadridge supports implementing these during the initial replacement. This would include the following items identified within the consultation paper:

- International standard messaging protocols
- Legal name on title throughout settlement and remove the need for a settlement accumulation HIN
- Expand security encumbrance (non-transferable state) capability
- Provide settlement period choices

Where new functions or enhancements require significant change in participant procedures, Broadridge recommends adoption in subsequent phases. For example,

- Real-time data and service access via an application programming interface (API)

### Q3. What are your views on each of the potential business functions and service enhancements identified in the paper for implementation with the replacement of CHES?

Generally Broadridge welcome the proposed new business functions and service enhancements identified in the consultation paper. In particular, Broadridge can comment on key items.

#### **International standard messaging protocols**

Broadridge believes that the introduction of international messaging protocols will be a benefit to the local market in terms of accessibility and the standardisation will drive a utility model, reducing operational overheads for participants.

#### **Legal name on title throughout settlement and remove the need for a settlement accumulation HIN**

Broadridge encourages the simplification of settlement operations. There has been some debate on the scope of this and Broadridge requests clarification on whether it refers to both the settlement and accumulation HINs or just the accumulation HIN.

#### **Expand security encumbrance (non-transferable state) capability**

This is tightly coupled with the removal of the accumulation HIN.

#### **Provide settlement period choices**

This will be in-line with the international market standards. As trades are settled via peer-to-peer confirmation which means settlement can be instantaneous. Less time in record keeping means and in turn less costs to the brokers.

Q4. Would you expect the business functions and service enhancements identified in the paper to provide a net benefit to your organisation, and if so, how would you categorise the significance of the net benefit - small / medium / large? If possible, please provide a quantification of any net benefit

There is no quantifiable benefit to Broadridge of these changes. However, Broadridge recognises that the commitment to use international messaging protocols and the simplification of clearing and settlement operations will benefit our clients.

Q5. Are there other business functions and service enhancements that are consistent with ASX's guiding principles that have not been identified and which you think should be considered as part of the replacement of CHES?

#### **Bulk netting messages**

Similarly, some participants receive very large volumes of MT138 netting messages at the end of day as part of CHES batch. In addition to the standard message based approach, Broadridge request a bulk-based mechanism as an alternative for large volume participants. This would be available as part of end of day download and processing for certain message types.

The benefit of this approach is a faster, more repeatable and robust mechanism to provide a 'stretch' capability within the system for very large volume participants.

Q6. Are there any non-functional requirements or connectivity models you would like ASX to consider for the replacement of CHES?

Broadridge requests that the ASX consider the following non-functional requirements and connectivity models during the replacement of CHES.

1. Provision of multiple end-to-end integrated test environments, including synchronisation with ASX Reference Point and with the ASX Trade test environments. At least one test environment would be refreshed regularly from production keeping it current and reducing the cost to participants of maintaining test environments
2. Facilitation of out-of-hours development and testing via a 24x7 end-to-end integrated test environment; this will assist participants in leveraging off-shore resources more effectively thereby reducing the cost of keeping pace with market changes
3. A login-based connectivity model similar to the OI mechanism used by ASXTrade to allow multiple parallel connections under different logins via single connection; this will facilitate service mutualisation and scalability for participants

4. The facility to replay messages from a point or – if the replay would be large – provide a file of items for replay; this would enable faster and less costly recovery in Disaster Recovery scenarios
5. Support of JMS or other similar queue based connectivity over the selected network would ensure a robust delivery model using an industry standard paradigm. In order to reduce the cost to participants, Broadridge encourages the usage of open source components where possible, compared with proprietary components
6. Reduction in the number of message types and volume of messages required for mFund, along with a simplification of the flow
7. Consolidation of holding movement messages. There are 4 sets of messages to cover the permutations of transferring holdings between the 3 sub-registers (CHESS, issuer sponsored and certificated). Broadridge requests these be consolidated into a single, more flexible message to simplify message flows thereby enhancing robustness across the end-to-end transfer process
8. Simplify Corporate Action file-based and email-based testing. Provide auto-creation of registry messages such as MT022 to truly reflect each state of the corporate action
9. Provide a facility for volume testing such as MT164s with CHESS. This is currently limited to the trade file and prevents participants from conducting realistic simulations to ensure the robustness of production solutions
10. Reduction in the time to release collateral. Shortening the ACH response time to release options cover will assist in reducing settlement failures and provide more time for participants to meet settlement obligations

Q7. Would you expect the adoption of ISO 20022 messaging standards to provide a net benefit to your organisation? If so, how would you categorise the significance of the net benefit – small / medium / large? If possible, please provide a quantification of the expected costs and benefits of the implementation of ISO 20022 messaging standards.

Although Broadridge is not a market participant and will not operationally benefit from the adoption of ISO 20022 messaging standards, we do believe there are benefits in moving to the standards from a development perspective i.e. leverage of resources and know-how. Broadridge does expect to create a benefit to our clients via access to our proven and in-depth experience in ISO 20022 messaging gained in other markets such as Singapore (SGX-PTS), Japan (JASDEC / BOJ) and Europe (T2S).

There should be benefit to the participants of the market in general through higher interoperability with global standards through deployment of ISO 20022.

Q8. How important is it to your organisation that ASX continues to support CHESSE messaging for a period of time to allow for your organisation's transition to ISO 20022 standards?

Continued support of CHESSE messaging to allow a parallel run is not important to Broadridge because we are focused on providing compatibility to the new standards, as soon as the replacement's milestones allow, with the intention of insulating our clients from change as far as possible.

Q9. ASX currently supplies and supports two client-side CHESSE messaging gateways – CHESSE PC and CHESSE Access. Are you a user of either of these services? If so, which gateway do you use?

Broadridge doesn't use these systems directly and is not aware of any clients that use CHESSE PC or CHESSE Access.

Q10. If you are a user of CHESSE PC or CHESSE Access, would you be seeking continuation of this gateway service from ASX (for either CHESSE or ISO 20022 message suites)?

Per question 9, Broadridge has no exposure to these systems so no response is provided.

Q11. Does your organisation have the capability to support and migrate to ISO 20022 messaging now? If yes, what business categories do you use? If your organisation does not currently have this capability, does it have plans to implement it in the near to medium term?

Broadridge has proven and in-depth experience of ISO 20022 messaging in many markets through a variety of "Adapters" which enable 2-way STP with our post-trade solutions. Our Adapters currently support a wide variety of message types across the various direct CSD connectivity markets we support.

In addition Broadridge's SWIFT messaging tool, SWIFT Transaction Manager, provides access to the SWIFT network in both ISO 15022 and ISO 20022 formats for exchange with custodians, broker-dealers, banks and other financial institutions. Straight through processing is available for the complete SWIFT message library including trade initiation, confirmation, securities, treasury, payments, corporate actions, statements and proxy voting.

Broadridge is under-taking internal prototyping exercises to ensure we can offer our Australian and international clients a conversion path with minimal interruption to their business.

Q12. If ASX was to mandate the use of ISO 20022 securities messaging, how long would your organisation need to migrate to ISO 20022?

The timeframe for a migration to ISO 20022 will in large part depend on the ASX schedule for publishing the mapping to the existing CHESSE message schema and the extent to which messages are approved by the International Standards Organisation for addition to the specification.

Broadridge advise that while our technology will be ready very quickly based on leverage of our existing solutions, the replacement has the potential to be a significant change that could take participants up to 12 months to implement, without taking into consideration any other work commitments and priorities.

Q13. Do you have a preference about the approach to the implementation of ISO 20022 messaging - for example, a big bang approach or per business function or other?

Broadridge is open to various options and recommends consultation with the market participants to encourage active dialogue on the appropriate conversion path. This may involve either big bang approach or a more cautious phased approach to reduce impact to the market. In either case the benefits and drawbacks of each approach should be discussed and an appropriate roadmap defined.

Q14. Does your organisation have a preference for the network used for ISO 20022 messages - for example, SWIFTNet, ASX Net or other?

Broadridge does not have a preference for the network used for ISO 20022 messages. Broadridge supports both networks today. We think that offering choice to participants is a good approach, although we note that JASDEC has decided to withdraw SWIFTNet support from 2020 due to low adoption by the brokerage community in Japan.

Q15. Please provide your views on the potential enhancements and new services identified in this paper. Would these enhancements and new services be beneficial to your organisation?

Please see response to question 3 above.

Q16. Please outline any additional significant functional enhancements and new services that your organisation thinks should be considered.

Please see response to questions 1, 5 and 6 above.

Q17. Do you have any other comments on the matters discussed in this paper?

Broadridge welcomes the introduction of ISO 20022 and the opportunity to offer our experience and technology to ASX participants.

Broadridge continues to invest in distributed ledger technologies and welcome the stance of the ASX to adopt a dual approach between DLT and ISO 20022 messaging, enabling choice for the participants.

Broadridge requests further information on the following matters:

1. Will ASX publish draft findings from the SWIFT mapping of functionality, technical requirements and business processes ahead of the Q4 2017 decision?
2. Will ASX publish ISO 20022 Market Practice Guide (“MPG”) – or a draft for comment – ahead of the scheduled decision on DLT?
3. In moving to ISO 20022, does the ASX intend to adopt the SWIFT sponsored model or a proprietary MPG?

## 4. Broadridge Contacts

Broadridge is available for further dialogue and advice on the adoption of ISO 20022 in Australia and other markets, as well as opportunities and insight into the commercialisation of distributed ledger technologies.

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