

SUBMISSION

28 October 2016

General Counsel
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Attention: Dianne Lewis
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Dear Ms Lewis,

ASX's replacement of CHESSE for equity post-trade services: Business Requirements – September 2016

We refer to ASX's consultation paper on the replacement of CHESSE for equity post trade services. The National Stock Exchange of Australia Limited (NSX), having been a long standing user of CHESSE since 2001, welcomes the opportunity to comment on the proposed business requirements.

Further Information

If you require any further clarification on this submission, please contact Mr Scott Evans on 02 4921 2406 or email at scott.evans@nsx.com.au.

Scott Evans
General Manager and Company Secretary
National Stock Exchange of Australia Limited (NSX)

Acknowledgements

NSX acknowledges the input by NSX staff on comments of this submission particularly from Ann Bowering Managing Director, John Williams, Head of New Admissions, Lina Lim, Head of Technology, and Jane Thorley Trading and Settlement Manager.

NSX submission in response to CHES Replacement.

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Summary of the NSX Position

NSX submits that:

- CHESS has served NSX's requirements well since 2001;
- NSX would prefer a standards based approach to the replacement requirements which has been well tested and is well understood;
- NSX, operator of an equities market in Australia, requires settlement infrastructure and requires that that infrastructure should keep pace with developments in innovative technology that are safe, secure, reliable and sustainable;
- ASX should acknowledge that the provision of such a service should be cost effective as there is a great dependency on the service in both the domestic and international communities; and
- NSX provides answers to questions raised in the following body of the submission.

Selected Responses to questions raised.

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

Please refer to Question 5.

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

Although this may appear to be a pragmatic approach to the transition, NSX believes that a limited suite of functionality would be a retrograde step in convincing participants to move to a new system. Any replacement of such a large system must seek to encourage stakeholders to migrate. NSX believes that provided the range of proposed enhancements are complimentary and additive to existing functionality, rather than a replacement, then small limitations on provided functionality may be acceptable.

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 CHESS?

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

NSX is in support of this potential functionality for the reasons referred to in the consultation paper. Any reduction in settlement risk and unnecessary transfers of ownership is beneficial during corporate action entitlements that coincide with settlement preparation.

Expand security encumbrance (non-transferable state) capability

NSX is in support of this potential functionality. Foreseeable potential uses could include restricting the movement of escrowed holdings (via the introduction of holding lock functionality) as part of the admission processes for new listed entities.

Provide settlement period choices

Choice of settlement periods is appealing to NSX as a market operator as it enables the delivery of choice across listed entity and market user stakeholder groups, as well as extending access to market liquidity.

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

NSX is in support of this potential functionality to deliver proactive monitoring and reporting.

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.

Overall, the potential innovations to business functions and services described would deliver a net benefit to NSX's business classified as medium. This is mainly due to some operational efficiencies.

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 CHESS?

Yes. The ability to interrogate a holders total combined holding in a security.

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

NSX is satisfied with the scope proposed in this question.

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.

NSX supports any movement to internationally recognized standards such as ISO 20022. CHESS was a leader in this area at inception. However standards have become available which means that operational efficiencies can be gained by their adoption.

NSX does not support the view that ASX should adopt protocols that are non-standard and have not been thoroughly tested, have not yet proven to be secure, reliable or scalable.

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

NSX is a user of CHESS services as a General Market Participant and also its customers such as brokers, share registries, custodians and banks rely on the infrastructure of CHESS. NSX utilises CHESS PC and would continue to require this product post the implementation of the replacement. NSX would expect that ASX would make CHESS messaging available to the wider community as a transitional measure.

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

Yes, NSX is a user of CHESS PC as a General Settlement Participant. Some NSX customers, from time to time, have also used CHESS PC.

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

Yes.

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?

Only via CHESS PC.

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

NSX would be ready as soon as CHESS PC supported the standard.

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?

NSX prefers a phased implementation approach that would provide a manageable transition and mitigate risks.

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

NSX is agnostic with respect to its preference of a network. NSX is guided by its customer preferences and seeks to offer a range of connectivity options as appropriate. Therefore, NSX is in support of the continuation of CHESS connectivity to be available over ASX Net in addition to SWIFTNet.

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?

Overall, the potential enhancements and new services would deliver a moderate benefit to NSX's business. Of note is the holding lock functionality and greater connectivity to share registry services.

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

Further flexibility to the creation and management of corporate action events to support future innovation to corporate actions that are supported and effected in CHESS rather than being managed manually by Participants.

The ability for CHESS to be able to provide a total statement of a security holders holdings in a particular security irrespective of if they are Issuer or CHESS sponsored.

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

No further comments. NSX thanks ASX for the opportunity to comment on the proposed changes.