

CHES Replacement Consultation: Response from Nomura Research Institute Ltd.

Nomura Research Institute (NRI) welcomes the opportunity from the ASX to engage in the CHES replacement consultation process. NRI has a history of supporting Asia's capital market participants for over 50 years, and has witnessed several technological and structural changes during that time. The changes proposed by ASX are non-trivial and will impact the regional market operations. The ASX should be complimented for their vision and effort in bringing the consultation process to the agenda as it really sets Australia up as being a leading global force for change in the evolving Fintech space.

Being new to the Australian market NRI, brings in new ideas and technology which will benefit all participants. For instance, NRI's post-execution management solution is well-established in various countries and has now been tailored to the needs of our clients operating within Australia and Asia.

NRI is aligned with its clients to implement the CHES Replacement business enhancements that are to be adopted by the participant community. NRI looks forward to working closely with ASX, fellow vendors and participants in the endeavor to provide market leading clearing and settlement infrastructure for the Australian Market. NRI's EIG interface solution which is being supplied to Australian participants for CHES connectivity already supports the ISO 20022 MX message set for settlement.

The discussion on blockchain technology is something that NRI warmly welcomes and our organisation, in partnership with one of our clients, has already been closely involved with the Japanese Stock Exchange in their exploration of this technology.

The key advantage for NRI's Australian clients is a strong, well-established, cloud-based platform with no requirement to remediate an existing solution to fit the Australian market. The externalized and, therefore, easy-to-customise interface module, EIG, already supports the proposed ISO 20022 messaging standards, and will also support the New Payments Platform (NPP).

The intended operations of the CHES replacement project are not detailed in the consultation and so, while unable to provide comprehensive feedback, we have indicated where NRI feels it can provide feedback that may be important for this important discussion.

CHES Replacement Business Requirements Q1-5

Broadly, this document targets the key areas that should form part of the requirements for standardised market participation operations. The ability to support many of the existing market functions available today will be of benefit to the success of this project.

NRI will support the service enhancements proposed by ASX. The cost impact of the changes for ourselves and our clients is hard to anticipate until the overall details are finalised, by the ASX and the market community. NRI will continue to engage with ASX through technical workshops and bring global expertise and a dedicated base of consulting and project expertise to support the market change.

Of particular note, in reference to encumbrance locks, NRI's platform already provides the ability for a participant to lock client assets, independent of the depository. This functionality allows clients to align easily with the proposed ASX enhancements. NRI will give consideration to the detailed changes once they are finalized by ASX and will support any further customizations that may be required.

Early settlement is also something that NRI has experience supporting on its platform in other markets, including in Japan. Having different settlement cycles (say T+1 & T+2) can open up new business opportunities, which can result in higher volumes and improve the overall liquidity, as well as cost saving.

Overall, the impact and benefit of the proposed changes are welcomed by NRI and we are committed to support the path chosen by the community.

Non-functional requirements Q6

In terms of non-functional areas, NRI believes it can draw on its experience to contribute to the discussion on many aspects which relate to running large scale IT projects and understanding how to implement market-wide solutions - which all require a particular focus and a community-supported effort.

Critical to the success of the ASX project will be time-to-market. Efficient time-to-market will reduce costs across the board for the whole community. NRI shares that commitment to deliver a working solution that meets the objectives of the proposed changes. This is reinforced by NRI's:

- Proven track record in delivering solutions to clients that meet their needs
- SaaS based market solution which means one multi-tenanted system solution for the market
- Strong integrated existing capabilities in international messaging standards

Testing is one area of particular interest for NRI, as it plays an important part in the successful updating of a vendor platform. In relation to the CHES replacement, there are a number of areas for improvement, which should be within the focus of the replacement service. Some of these are alignment of the CHES back office with front office, regular data refreshes, and generally more automation for testing purposes - particularly around the setup and running of corporate actions.

ISO Messaging Standards Q7-14

NRI has strong technical capabilities in ISO 20022 application for payments, securities settlement and securities management messages. NRI supports ISO 20022 messaging connectivity for members of JASDEC – in fact, NRI was the first vendor to adapt to this new messaging format for its clients when JASDEC made the change.

NRI agrees that global standards can allow for significant reduction in CHES messages under ISO 20022.

As a vendor supplier of ISO 20022 NRI feels well-positioned to support its clients in Australia. NRI seeks more detailed information related to business processes of focus and expected workflows to assess the full implementation impact on costs and timeframes. It is expected that migration readiness could take between 6 and 12 months depending on the intended implementation plan.

As greater details are provided around the planned implementation, NRI welcomes the opportunity to provide greater input into the planned migration and whether a staged approach or a big bang strategy will have the least amount of risk or disruption to operational functions of the participant community. Our externalized EIG messaging gateway which supports SWIFT MT, SWIFT MX (XML), and various proprietary formats (including current CHES formats) can serve as a translator during a transition phase, in case a staged approach is preferred over a big bang cutover.

Participants will ultimately guide preferences around network requirements and NRI expects cost to be a major consideration. From a vendor perspective, low cost testing access is critical and should feature in the overall systems design.

As to whether the industry decides to choose between one or both networks, ASXNet or SWIFTNet, NRI will support both alternatives, as it does support multiple networks in other markets. From a market participant perspective, the choice is one of business focus (international v. domestic) and apportionment of funding for the various network and member connections. Some participants will likely view cost factors as a key consideration.

Other CHES Requirements Q15-17

In terms of other areas for consideration, NRI remains focused on being part of the Australian market journey as an investment in joint future commitments.

NRI's multi-asset class, multi-currency, multi-entity platform enables a single platform for Equity and ETO, Retail and Institutional, and is cloud deployed or on-premise. NRI would welcome the opportunity to discuss ASX's plans for potential integration of clearing for other asset classes in particular Options, noting previously announced plans to introduce a common platform.

About Nomura Research Institute Ltd.

Founded in 1965 and headquartered in Tokyo, NRI is a leading provider of consulting & system solutions, with a presence in all the major financial centers around the world. NRI provides innovative, cross-asset, multi-currency, front- and back-end financial IT solutions for investment banks, asset managers, banks and insurance providers in the global market. NRI is pleased to see the future development aspirations for a multi-currency and multi-asset class development for post-trade systems in Australia.

Background Information on the NRI Financial Solution for Broker Dealers

The NRI Financial Solution for Broker Dealers, "I-STAR/GV", is the modern, re-architected global version, post-trade processing solution built on evolving technologies and is well-established in various countries in both mature, as well as emerging markets.

This comprehensive back office solution for implementing STP in post-trade life cycle management, handles cross-border trades in a multi-currency environment for multiple asset classes with real-time interfaces with external systems such as Order Management Systems, Exchanges, Depositories, Clearing Corporations, Payment Banks and Custodians.

It also provides simultaneous support of multiple enterprises with proper data segregation, and high volume scalability at a low cost by clustering standard hardware, along with maximum flexibility and cost reductions for customizations by virtue of its loosely-coupled, message-based internal architecture.

The solution's externalized interfacing module, supports XML and SWIFT compliant formats, offering templates for industry standard protocols and facilitating implementations of proprietary formats, allowing quicker system-to-system interfacing.

Summarizing the NRI Value Proposition

NRI offers focused capital market technology backed by deep domain knowledge, technical expertise along with high-quality, cutting-edge technology solutions and services, trusted by clients and partners around the world.

Its 50-year history and consistent ranking as a top-10 global FinTech firm by American Banker, showcases its long-term commitment to the markets it serves.

NRI's aim is to provide Australian securities firms with solutions that underpin all the aspects of securities operations, while offering holistic support locally, and pro-active, timely updates for changing market requirements.

- Multi-asset class, multi-currency, multi-entity, multi-office back office solution for Australian market participants
- Cloud hosting (or on-premise) deployment and local support backed by NRI support centres in India & Japan
- Long term commitment to serving the capital market in Australia with more modern technology at lower costs
- Substantial savings over incumbent solutions
- A long track record of "joint-use" SaaS solutions - NRI launched the joint-use system for retail securities firms as early as 1974, implementing the concept for what is known today as "cloud computing" over 40 years ago. The year 1987 and 1993 respectively witnessed the launch of its joint online back-office system for wholesale companies and the joint online back-office system for investment trust companies. Since then, NRI has made continuous investments to keep the solution current in terms of functionality and technology stacks. Today's global version, is ready for Australia for deployment "on-premise" or "on-cloud".

NRI hopes that its recent entry in to the Australian market will be seen as having a very positive impact, with the benefits of increased competitiveness among system vendors accruing to market participants and all stakeholders especially given the major technology changes that are forthcoming.