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CHESS REPLACEMENT UPDATE

ASX and Digital Asset, our technology partner, are building a distributed ledger technology (DLT) based system to replace CHES. ASX started the project in 2016, and we achieved a major milestone in September 2018, confirmation of the day 1 functionality for the replacement system, and confirmation of March to April 2021 as the target go-live date.

A recap – why is ASX replacing CHES?

CHESS is the ASX owned and operated system that facilitates the clearing and settlement of market trades. CHES also provides an electronic register for securities in listed and quoted companies. While CHES is still functionally and technically sound, ASX saw an opportunity to re-envisage how CHES works and to transition CHES to a contemporary, innovative and world-leading clearing and settlement system.

In addition to providing a solid foundation for the provision of clearing, settlement and other post-trade services, it has become clear DLT's highly secure environment – where permissioned users have real-time access to the data to which they are entitled – will enable ASX's customers, or third-parties engaged by them, to build new services across the market to generate significant value.

How will the new system differ from the existing one?

ASX received strong feedback in its 2016 consultation with stakeholders that users wanted new functionality that would deliver near-term benefits. This feedback was confirmed through subsequent industry working groups in 2017.

The new scope proposed by ASX in April 2018, and confirmed in September 2018 after consultation with stakeholders, strikes a balance between the desire for new

functionality and the scale of work involved, for both ASX and industry, to be ready for a March to April 2021 go-live of the new system.

Practically, users will be able to do everything they can do today in the new system, with the exclusion of some business services, which will be discontinued because they are either not currently being used or they will be replaced by more contemporary functionality. ASX is also taking a phased approach to the introduction of new functionality, with functionality categorised as either to be implemented on day 1 (the date the new system goes live), or to be implemented via releases post-day 1.

What's changing from an issuer or investor's perspective?

ASX's guiding principle for the replacement of CHES is to operate for the benefit of issuers and investors. While there is a lot of new functionality being built for the new system, some of the new functionality is of particular interest for the issuer and investor community. The new features listed across the page will provide opportunities for efficiencies and streamlining of existing processes.

New features that will be delivered for day 1 go-live of the new system

- **Registration standardisation to reduce registration mismatch issues between the CHES and Issuer Subregister**

Existing standards and processes are broad, antiquated and time consuming. Additionally, validation is not controlled by a central source. Collectively, these factors can result in a mismatch to the standard. Mismatched registration details leads to rejected transactions, which results in manual intervention between participants and investors and additional message processing between participants and share registries. Improved efficiencies in matching holder information will reduce associated costs in the industry over time.

- **Electronic dividend reinvestment plan (DRP) and bonus share plan (BSP) elections**

The new system will give participants the ability to electronically elect to participate in DRPs and BSPs (on a per issuer basis) on behalf of their clients. This feature is attractive to custodians, full service and other brokers, and will help to streamline the DRP and BSP election process, via CHES to issuers/registry, including reducing the amount of paper and manual processes. It will also provide holders with additional certainty that the issuer received their election by generating a real time electronic acknowledgement of receipt. It is worth noting that this new functionality will be optional – the current process will continue to be supported.

- **Electronic acceptance of entitlement offers and electronic payment for entitlement offers**

The new system will provide participants the ability to electronically accept entitlements on behalf of their clients. It is anticipated the electronic acceptance process will be predominantly used for pro-rata (non-renounceable and renounceable) rights issues, including

accelerated rights issues. It may also be used for share purchase plans, priority issues (non pro-rata), buy backs, option conversions, takeovers and schemes of arrangement. This feature will streamline existing processes and allow participants to add value to investor needs. It is worth noting that this new functionality will be optional – the current process will continue to be supported.

• Electronic provision of holding statements

The new system will allow CHES holding statements and notifications to be provided to holders in an electronic format including by email, on an opt-in basis. This will benefit issuers and investors by providing an efficient and timely delivery method, and will reduce costs associated with delivering holding statements. The new features allow for ‘standardised’ processes regardless of issuer or registry, an attractive feature for participants and investors.

Future capabilities that will be delivered post day 1 go-live of the new system

• Aggregated view of holdings

The functionality will provide the capability for an investor to view the portfolio of holdings in which they have an economic interest, and similarly allow a consolidated view of holdings by issuers (based on an attribute linked to a holding). This will provide opportunities for further efficiencies.

• Continuous holding balance information

The functionality will allow issuers to be provided with information on CHES holding balance changes (i.e. additions to or subtractions from a CHES holding or new holdings) on a contemporaneous basis. This will facilitate issuers being able to reconcile their share register on a more frequent basis, and the ability for issuers to have a real-time understanding of changes to their share register.

• Electronic proxy voting

The functionality would provide the ability for electronic proxy voting for all relevant issuer meetings. This would streamline proxy voting processes by enabling electronic proxy voting, reducing the amount of paper and manual processes currently being used, which will support greater participation.

Key takeaways from the CHES replacement: new scope and implementation plan consultation

In our April 2018 consultation, we sought specific feedback on the day 1 scope, implementation timeline, ASX’s proposed testing and release management strategy as well as ASX’s proposed migration and implementation approach.

We heard from a broad cross-section of industry, including clearing and settlement participants, custodial providers, share registries, approved market operators, vendors and a number of associations (including industry bodies representing the views of issuers and investors).

In terms of the functionality of the new system, we heard from respondents that some new business requirements needed to be sequenced over a longer time frame, and as a result ASX has deferred the implementation of seven

new functional items from day 1 to post-day 1. The confirmed day 1 scope includes functionality relate to:



We also heard from many respondents that the timeline proposed in ASX’s April Consultation Paper was ambitious, so ASX has pushed back the earliest commencement date for the new system from Q4 2020 to target March-April 2021.

The revised timeline for various elements of the project, including analysis, build and multiple test environments is below.

Ongoing stakeholder engagement was another topic that elicited consultation responses. ASX laid out the forward work plan for stakeholder engagement, which includes convening a number of new focus groups and working groups.

ASX will be ramping up its engagement with organisations including the Governance Institute of Australia and Australasian Investor Relations Association. We will also be reaching out to institutional and retail investors, including through relevant industry associations.

If you haven’t already spoken to these organisations about the CHES replacement project, or want to get in touch with ASX directly regarding the project, we’d love to hear from you.

Want further information?

Visit: asx.com.au/services/ches-replacement.htm

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