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CHESS UPDATE

ASX is using distributed ledger technology (DLT) to replace CHES. Last edition, we outlined the work performed with Digital Asset (DA) to come to a final technology decision, as well as industry engagement in the project to date. Here, we highlight key points from the consultation paper, step through the program of work anticipated by ASX in response to the consultation paper and outline the engagement you can expect in the future.

First, a recap on the project

CHESS facilitates the clearing and settlement of market trades, and provides an electronic subregister for securities in listed and quoted companies. While still a stable and reliable system that is updated to keep abreast of market developments, it is now more than 25 years old. We are taking the opportunity to re-envision how a best practice clearing, settlement and asset servicing system can work. The technology we have decided to use, DLT, enables organisations to securely interact with the same universal, real-time source of truth. It does this while maintaining confidentiality and scalability, both vital for large, regulated markets. DLT will reduce reconciliation complexity across the various CHES users and introduce standards that reduce operating costs and facilitate innovation.

The decision to replace CHES using DLT follows the successful build of an enterprise-grade DLT software for core equity clearing and settlement functions, and the completion of extensive suitability testing by ASX and DA over the past two years.

ASX has conducted a thorough consultation program on stakeholder needs and priorities. Working groups were convened to discuss, elicit and capture users' high-level business requirements for the system to replace CHES. This culminated in a set of new requirements to be developed in the replacement system.

Inside the consultation paper

A detailed understanding of what stakeholders would like from the replacement system is laid out in the public consultation paper that was released at the

end of April 2018. The consultation paper included ASX's proposed 'Day 1' scope, implementation and migration plan.

The proposed 'Day 1' scope includes carry forward of most existing functionality, as well as addressing a sizeable share of the business requirements identified by the industry. ASX developed the proposed scope acknowledging the need to balance the desire for new functionality on 'Day 1' against the need to deliver the replacement system in a reasonable timeframe, and recognising that further enhancements can be made to the replacement system once implemented.

ASX's guiding principle for the replacement of CHES is to operate for the benefit of Issuers and Investors:

"Provide issuers and end investors with greater control over, and enhanced confidence in, their market activities through timely, secure and simplified access to the register of holders (for issuers), financial assets (end investors) and associated information."

This includes a number of new business requirements that will better support and enhance Issuers and Investors post-trade experience. Some of the benefits include:

- (i) Allow more real-time understanding of changes to shareholdings.
- (ii) The potential to more readily identify the beneficial holder when the registered holding is in the name of a nominee company.
- (iii) Provide functionality to electronically elect and accept some types of corporate action events.

Full details of these enhancements, and more, are available in the consultation paper.

What is next for ASX after the consultation paper?

The consultation paper sought feedback from stakeholders, including the issuer and investor community, on the identified scope, and any other important business requirements that should be included in the functionality of the replacement system. ASX is expecting to confirm the 'Day 1' scope and implementation timeline around the end of June 2018.

However, we will continue to explore ideas and opportunities for subsequent system releases 'Post Day 1' implementation, such as investor interactions and further efficiencies in managing your register. Therefore, if you didn't respond to the consultation paper, we still value your feedback and wish to hear from you.

To this end, there are a number of ways to engage with ASX and keep abreast of the project. Issuer roundtables will continue, as will quarterly webinars published on the CHES replacement website, asx.com.au/services/ches-replacement. ASX has also built a custom software prototype demonstration suite in Sydney, to give clients a tangible sense of what we are doing. If you would like to come into ASX's Sydney office for a demonstration, or receive email updates on the project please email CHESReplacement@asx.com.au.

We look forward to hearing from you.

Improving corporate action processing

Corporate actions was a hot topic at the working groups held in 2017, identifying 15 out of 40 functional requirements for improvements. The consultation paper outlines ASX's response to these requirements, which includes how many will be addressed as part of a parallel corporate actions straight through processing project.

This is a multi-phased project to streamline and standardise the issuer announcement and ASX capture and publishing of information about corporate action and capital change events. Phase 2 of this project is proposed to be implemented in advance of CHES's replacement, delivering a solution for a number of the requirements identified. Further information on the project is in the consultation paper.