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Parliamentary Joint Committee on Corporations and Financial Services  
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## **ASX FOLLOW UP SUBMISSION TO PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES – INQUIRY INTO OVERSIGHT OF ASIC, THE TAKEOVERS PANEL AND THE CORPORATIONS LEGISLATION**

ASX Limited (**ASX**) provides this submission to the Parliamentary Joint Committee on Corporations and Financial Services' (the **Committee**) inquiry into the 'Oversight of ASIC, the Takeovers Panel and the Corporations Legislation' in relation to ASX's CHES replacement project currently under review by the Committee.

Since ASX's last submission and appearance at the Committee in October 2023, ASX has made significant progress on the CHES replacement project. ASX continues to work constructively with its regulators and key stakeholders, and provides the following updates in this submission:

- announcement of the new solution design for the CHES replacement project in November 2023;
- release of the first of two consultation papers seeking feedback on the proposed approach to implementing the new solution for CHES replacement in March 2024;
- publication of an independent report on the assessment of the 'Define & Plan' phase of the CHES replacement project in November 2023;
- publication of an independent expert report on the assessment of ASX's Assurance Program for the implementation of the CHES replacement project in December 2023;
- CHES replacement workshops conducted to reflect industry requirements and refine project scope; and
- release of a consultation paper seeking feedback on future milestones for the CHES Replacement Partnership Program in April 2024.

Importantly, ASX continues to invest in current CHES to ensure it continues to reliably service the market until it is replaced. ASX has been providing regular updates to ASIC and the Reserve Bank of Australia (**RBA**) on planned upgrades, which are reflected in the CHES Roadmap. The refreshed CHES Roadmap, which confirms changes to be implemented in FY25, will be published on ASX's website by the end of June 2024 and updated at least annually.

In addition to progress on the CHES replacement project, there have also been significant policy developments of relevance to ASX. The Government has consulted on and introduced legislation to implement a financial market infrastructure reform package. The Government has also progressed implementation of the competition in clearing and settlement legislation, passed by the Parliament in September 2023.

### **New solution design for CHES**

On 20 November 2023, ASX announced that it had completed its reassessment of the solution design to replace CHES. ASX entered into an agreement with TATA Consultancy Services (**TCS**) for the delivery of its TCS BaNCS for Market Infrastructure product, which offers a modular technology platform for clearing and settlement services. The decision to proceed with the TCS product was made following extensive evaluation of potential solution options and product vendors, as well as extensive input from stakeholders through the process.

ASX considers that the chosen product will provide a reliable, supportable and scalable platform that meets the needs of the Australian market now and into the future. It can also satisfy the licence obligations of ASX Clear and ASX Settlement, and is capable of supporting potential new services and innovation from ASX or other providers.

ASX is proposing to implement the new platform in two main releases. It is proposed that the clearing service (Release 1) will be delivered first, with settlement and sub-register services to follow in a second release (Release 2). The indicative timeframe for implementation of Release 1 is the first half of 2026.

This staged approach is expected to reduce overall delivery risk and help manage impacts on industry stakeholders, as compared to a single cutover approach. The staging will also enable an earlier uplift in market capacity and scalability.

Stakeholder input was key to the decision, including industry input on the project objectives and scope from the CHES Replacement Technical Committee (**Technical Committee**) and the ASX Business Committee.

In addition, the new Cash Equities Clearing and Settlement Advisory Group (the **Advisory Group**) was convened in September 2023 under independent Chair Alan Cameron AO. The Advisory Group is a stakeholder forum for input to the Boards of ASX Clear and ASX Settlement (the **CS Boards**) on strategic matters related to cash equities clearing and settlement services and associated infrastructure. As the Committee is aware, ASX's regulators set clear expectations that the CS Boards not make any final decisions on key strategic clearing and settlement issues (including CHES replacement) until the Advisory Group has had a reasonable opportunity to consider these issues.

Ahead of the CS Boards' decision-making on the high-level solution design for CHES replacement, the Advisory Group considered:

- the evaluation of four solution archetypes for CHES replacement;
- ASX's preferred solution option, partner and solution integrator; and
- the proposed implementation approach and an indicative project delivery timeline.

In its advice, the Advisory Group communicated that it considered the CS Boards were in a position to proceed with their decision-making on the high-level solution design for CHES replacement. The advice followed four meetings of the Advisory Group to ensure they could appropriately review the volume of material required. The Advisory Group's Communique detailing its advice can be accessed from the link in Item 1 of the Appendix.

A summary of the role and a list of members of the Advisory Group can be accessed from the link in Item 2 of the Appendix.

The Advisory Group Charter can be accessed from the link in Item 3 of the Appendix.

A diagram illustrating the relationship between the CS Boards, the Advisory Group, the ASX Business Committee and the Technical Committee is at Attachment 1.

The project has now transitioned into the next phase of detailed design and implementation.

### **Consultation on proposed staged implementation of CHES replacement and Release 1**

On 14 March 2024, ASX released a public consultation paper seeking feedback on its proposed staged implementation approach for CHES replacement, as well as the proposed design, scope and schedule for Release 1 and the testing approach for Release 1. This paper is also designed to equip affected stakeholders with the necessary information to consider initial planning and resource allocation for the implementation of CHES replacement.

The paper covers the proposed high-level project plan for CHES replacement, and the scope and approach for Release 1 including messaging specifications, testing requirements and readiness activities. ASX is primarily seeking feedback from CHES users such as Approved Market Operators (**AMOs**), software providers and clearing and settlement participants, however all interested stakeholders are welcome to contribute.

Consultation is open until late April 2024. Submissions will then be considered and ASX will publish its response to the consultation in June 2024 after consideration by the Advisory Group. The second consultation paper, which focuses on Release 2, is expected to be released in the third quarter of 2024.

The first consultation paper can be accessed from the link in Item 4 of the Appendix.

### **Independent Assessment Report on the CHESS replacement project 'Define & Plan' Phase**

As part of ensuring ASX's ongoing commitment to high governance standards, ASX initiated an independent assessment of the 'Define & Plan' phase of the CHESS replacement project led by EY. The 'Define & Plan' phase of the CHESS replacement project commenced in November 2022 with a focus on revisiting the solution design for CHESS replacement, which led to the decision and the November 2023 announcement of the solution design and indicative stages for a phased implementation. The assessment was performed over the period from February to November 2023 and the final report was published on 5 December 2023.

The independent assessment covered a range of matters, including:

- the robustness of the assessment and selection processes relating to the solution options, product and solution vendor, and the solution integrator;
- a review of the quality of key project deliverables and processes;
- the deliverability of both the current phase of the project and the proposed solution and delivery model; and
- the implementation of CHESS replacement project actions to address the CHESS Replacement Program External Review Report (published in November 2022 and detailed in ASX's previous submission to the Committee, dated 12 October 2023).

The independent assessment concluded that ASX followed a robust process to select a solution and vendors for the delivery of ASX's critical market infrastructure and that the deliverables and processes reviewed were appropriate for the nature, scale and complexity of the CHESS replacement project.

The report can be accessed from the link in Item 5 of the Appendix.

### **Independent Assessment Report of ASX's Assurance Program for CHESS Replacement**

On 31 January 2024, ASX published the fifth independent expert report on the assessment of ASX's Assurance Program for the implementation of the CHESS replacement project. The report was prepared by EY and sought to provide an update on the status of remedial actions from the previous (30 June 2023) Report and the progress of completed assurance activities in the period. The report also included an update on the trade outage independent expert review recommendations relevant to the CHESS replacement project. No recommendations for further improvement were made in the report. The report found ASX had improved its processes to track the closure of actions; that decisions made by ASX to close 9 findings were supported by sufficient evidence; and that actions taken to close a further 8 findings were designed effectively with sufficient evidence to demonstrate closure.

The report can be accessed from the link at Item 6 in the Appendix.

### **CHESS Replacement Scope Refinement**

The original CHESS replacement project scope required the replacement of all the existing functionality in the legacy system as well as the market's requirement to deliver enhancements. The scope evolved through engagement and feedback from the industry as well as design considerations of the solution during the first iteration of the CHESS replacement project prior to the pause in November 2022.

In the re-planning phase of the project, this previously developed functional scope was used as the baseline for the solution, while recognising the need to engage with the market to consider the appropriateness of any change to the scope.

Through the Technical Committee, ASX has engaged with stakeholders on the baseline scope and facilitated consultation through surveys and industry workshops to ascertain current market priorities. The outputs from these processes were reported to the Technical Committee to determine industry requests for change to the CHESS replacement project scope.

ASX facilitated three scope refinement workshops in mid-2023 to obtain stakeholder input into the CHESS replacement project scope. A scope recommendation survey was then distributed to members of the Technical Committee, including participants, AMOs, share registries and third-party software providers, asking members to provide their view on each scope objective identified in the workshops. The individual scope items were grouped across three main themes most relevant to the implementation of Release 2:

- sub-register and issued-sponsored enhancements;
- settlement; and
- corporate actions.

Agreed scope items were recommended to the Business Committee for endorsement, before being provided to the CS Boards for further exploration and consideration by ASX and industry working groups. The scope objectives are currently the subject of discussion and design exploration with the industry through the following working groups which sit under the Technical Committee:

- Implementation and Transition Working Group;
- AMO Working Group;
- Business Design Working Group; and
- ISO 20022 Design Working Group.

The scope items which are then recommended to be taken forward by the Business Committee are expected to form part of the formal consultation paper on the design, scope and schedule for Release 2, to be released in the third quarter of 2024.

#### **CHES Replacement Partnership Program: Development Incentive Pool Future Milestones Consultation Paper**

As the Committee is aware, ASX has committed up to \$70 million to the CHES Replacement Partnership Program (**Partnership Program**), which is made up of two components: the Participant Rebate Pool (up to \$15 million) and the Development Incentive Pool (up to \$55 million). The Partnership Program is designed to encourage continued participation in the CHES replacement project by supporting eligible participants to undertake the requisite technological and associated development activities to successfully interface with Release 2 of the CHES replacement project.

All payments under the Participant Rebate Pool have now been made to eligible program participants. Payments from an initial \$20 million Development Incentive Pool commenced in May 2023, and the remaining payments (\$35 million) will be tied to future CHES replacement project milestones. The payment milestones and allocation of funds will be confirmed following the public consultation process.

On 17 April 2024, ASX released the CHES Replacement Partnership Program: Development Incentive Pool Future Milestones Consultation Paper. The consultation paper invites feedback on the proposed structure of the future payment milestones and allocation of funds under the Partnership Program Development Incentive Pool. Consultation is open until mid-May 2024.

The consultation paper can be accessed from the link in Item 7 of the Appendix.

#### **Policy developments**

As the Committee would be aware, legislation to implement a suite of reforms relating to the regulation of financial market infrastructures has been introduced to Parliament. The legislation implements recommendations from the Council of Financial Regulators, provided to the Government in 2020. ASX is supportive of reforms to increase the resilience of the financial system and we engaged constructively with Treasury and the Treasurer's Office prior to the finalisation of the legislation, including via a detailed written submissions. The final version of the legislation includes a range of changes consistent with ASX's submission.

In addition, implementation of the competition in clearing and settlement legislation (which has been discussed by the Committee) has progressed. Following passage of the legislation in September 2023, the Government released an exposure draft of the ministerial instrument for consultation which sets out the scope of clearing and settlement services that will be covered by the new legislation. ASX made a submission to the consultation, which indicated the definition of 'cash equity' in the instrument is aligned with industry's understanding of the term.

Together, these legislative reforms address concerns raised with the current regulatory framework for financial market infrastructures, and provide the regulators with powers to implement and enforce requirements for providers of clearing and settlement services to operate in a way that achieves competitive outcomes, and ensures safe and effective competition in clearing and/or settlement should a competitor emerge.

### **T+1 Industry Whitepaper Release**

ASX will be releasing an industry whitepaper in late April 2024 to support discussion on the potential move to T+1 settlement in Australia. Australia's unique market structure, size, time zone, investment flows, and trading activity necessitates careful industry consideration of the risks, benefits, and costs of transitioning to T+1.

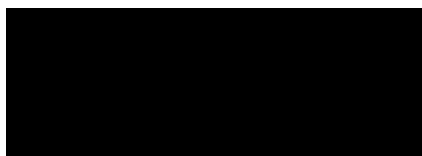
ASX has a critical role to play in facilitating the discussion to help form a market view on whether shortening the settlement cycle promotes the interests of the Australian market as a whole.

In December 2023, the ASX Business Committee formed the T+1 Working Group comprised of industry experts who have provided input into the preparation of the T+1 whitepaper. A copy of the whitepaper will be provided to the Committee on release.

ASX is fully committed to assisting the Committee in its inquiry and acknowledges the vital oversight role the Committee plays for Australia's financial system and in ensuring community expectations are upheld.

Should the Committee have any questions about the information in this submission or if we can be of any further assistance, please contact [REDACTED], Head of Government Relations & Industry Affairs, at [REDACTED] or on [REDACTED].

Yours sincerely



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**Helen Lofthouse**

Managing Director and Chief Executive Officer

## Appendix

| Number | Description   | Source materials  |
|--------|---|---|
| Item 1 | Advisory Group Communique advising CS Boards are in a position to proceed with their decision on the high-level solution design for CHES. | <a href="#">Communique</a> issued by the Advisory Group |
| Item 2 | Role and membership of the advisory group   | <a href="#">ASX Advisory Group webpage</a>              |
| Item 3 | ASX Cash Equities Clearing and Settlement Advisory Group Charter  | <a href="#">Advisory Group Charter</a>                  |
| Item 4 | Consultation Paper on Staged Implementation Approach and Implementation of Release 1 (Clearing Services)                                  | <a href="#">Consultation paper</a> prepared by ASX      |
| Item 5 | Independent Assessment Report on the CHES Replacement Project 'Define & Plan' Phase   | <a href="#">Independent Report</a> prepared by EY       |
| Item 6 | Independent Assessment Report of ASX's Assurance Program for CHES Replacement   | <a href="#">Independent Report</a> prepared by EY       |
| Item 7 | CHES Replacement Partnership Program: Development Incentive Pool Future Milestones  | <a href="#">Consultation paper</a> prepared by ASX      |

## Attachment 1 – Overview of key stakeholder forums

### Background to governance structure of ASX Clear and ASX Settlement

- CHES is operated by ASX Clear Pty Limited (ASX Clear) and ASX Settlement Pty Limited (ASX Settlement), which are licensed clearing and settlement (CS) facility operators under Part 7.3 of the Corporations Act 2001 (Cth).
- ASX Clear and ASX Settlement are wholly owned subsidiaries of ASX Limited and are part of the ASX Group.
- ASX Clear and ASX Settlement have their own Boards (CS Boards). Each of the CS Boards is comprised of a majority of directors who are independent non-executives and the Chair is an independent non-executive director.
- The CS boards are the governing bodies of the ASX Group companies which hold Australian CS facility licences.
- CS Boards provide leadership, guidance and oversight of the clearing and settlement operations of the ASX Group CS facility licensees.
- In discharging these responsibilities, the CS Boards must have regard to the stability of the broader financial system, other relevant public interest considerations and the objectives of relevant stakeholders.

