4 May 2023

Mr Sean Turner
Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600

By email: corporations.joint@aph.gov.au

To Mr Turner,

Parliamentary Joint Committee on Corporations and Financial Services (PJC) Oversight of ASIC, the Takeovers Panel and the Corporations Legislation - CHESS Replacement Project

1. About the Financial Services Council

The FSC is a peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia's largest industry sectors, financial services.

Our Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, life insurers and financial advice licensees. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses.

The financial services industry is responsible for investing more than $3 trillion on behalf of over 15.6 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange (ASX) and is one of the largest pools of managed funds in the world.

2. Introduction

Thank you for the opportunity to comment on the Parliamentary Joint Committee on Corporations and Financial Services' Oversight of ASIC, the Takeovers Panel and the Corporations Legislation – consideration of matters relating to the delayed implementation of the ASX CHESS replacement project, including the relevant oversight arrangements.

FSC fund manager members include large institutional managers who invest in Australian equities which are frequent users, often via their nominated custodians, of the ASX Clearing and Settlement (**CS**) mechanisms.

Governance and oversight arrangements

We understand that the Committee is also interested in relevant oversight arrangements of the CHESS replacement project. The FSC has not been directly involved with the ASX's CHESS replacement project or the ASX Business Committee which has been part of the ASX's governance process for the project. Comments from FSC members are provided in context of being users of ASX CS mechanisms with a key interest in having stable, efficient, effective and contemporary CS facilities.

The need to invest in CHESS to ensure key infrastructure does not fall behind

The delay in the CHESS replacement project has led to missed opportunities to improve CS facilities to keep up with an ever changing market, for the benefit of Australian investors.

Given seven years has elapsed since ASX announced, in 2016, its plan to replace CHESS, it is difficult to foresee how any replacement system would be up and running in the next few years after taking into account the time required for industry wide testing and time needed for stakeholders to also make requisite changes and ready their own businesses for the replacement system. This reinforces the need to continue to invest in CHESS, and addressing system needs in existing infrastructure, whilst simultaneously paving the way forward with the replacement system.

Recommendations

1. The FSC recommends the ASX staggered open should be removed, or alternatively that an interim measure be implemented which would move ETFs to the end of the ASX market open framework.

2. The FSC recommends that the ASX give consideration to later settlement matching or having an efficient mechanism to adjust settlement when the value is not finalised in time for matching to align with the USA moving to T+1 Settlement next year.

3. The FSC recommends that the provision of investor email addresses for new and existing clients via CHESS be mandated, requiring brokers to pass these to CHESS, to facilitate electronic communication with investors.

We outline some examples further below to illustrate in Attachment A.

Yours sincerely,

Spiro Premetis
Executive Director, Policy and Advocacy

Attachment A.

Removing ASX staggered open

The FSC has raised with the ASX the limitations of the ASX staggered open for stocks, whereby stocks open alphabetically at set times[1] and of exchange traded funds (**ETFs**) opening at the same time at the beginning of the trading day, given an ETF can be priced most accurately once all the underlying securities have started trading. The staggered open requirement built into the current ASX opening phase is outdated which does not align with best practice used in other markets given technology improvements over the last 20 years. The FSC believes the staggered open should be removed, or an interim measure be implemented within the existing CHESS, which would move ETFs to the end of the ASX market open framework.

Bringing forward new technologies and ideas in the Clearing and Settlement (CS) area – adjusting settlement cycles

The USA is moving to T+1 settlement in 2024 which will shorten settlement of trades to one business day after the trade is made, from current practice of T+2 or T+3 (which is two or three business days after trade). This will have implications for Australian ETF fund managers in the way of the settlement cycle of creation orders for ETF units where an ETF is holding US securities and Australian CS facilities currently require trade matching at 11:30am which is only a short time after the US market closes.

There are opportunities to bring forward new technologies and ideas in CS including considering later settlement matching, or having an efficient mechanism to adjust the settlement when the value is not finalised intime for matching to align with the US moving to T+1 Settlement next year.

Provision of investor email addresses via CHESS to be mandatory

There are also opportunities to increase the efficiency and potential for cost reductions on an industry wide basis which could be used to lower overall costs for investors. We understand the ASX has undertaken a lot of work to engage with brokers, as well as making the requisite CHESS changes, to enable the provision of investor email addresses from brokers to register providers and product issuers via CS services. CHESS enables this, however the provision of an ETF investors' email address from the broker via CHESS is voluntary. The implication of this is that only a small number of ETF investor email addresses have been provided via CHESS and product issuers do not have investor email addresses to enable electronic communication with investors. Instead, fund managers send paper-based communication to an investor's residential address which is considerably more costly, as well as less environmentally friendly, than sending the same communication via email and avoiding paper, printing and mailing cost. This is an extremely inefficient means of communication in an era where consumers frequently elect to receive communication electronically over paper based communication. With over 1.9m Australian ETF investors[2], who may also hold multiple ETFs there is the potential for considerable cost reductions by facilitating further electronic communications. Furthermore, the investment information may be more timely provided electronically than via mail which may be a few weeks old by the time the investor receives it.

Pending what the alternate is to replacing CHESS, we propose that it be mandated that brokers are required to pass through email addresses for new and existing clients to CHESS which in turn passes these onto the registry providers and ETP issuers. This would facilitate increased electronic investor communication reducing carbon footprint and the costs associated with mailing paper based communication.

We appreciate that it is costly to run two systems in parallel however it has been quite a number of years since focus was placed on the CHESS replacement project and it is likely that system changes to CHESS have been limited during this period.