



Australian Custodial Services Association
Level 29, 44 Market Street
Sydney, NSW, 2000

8 August 2023

Parliamentary Joint Committee
Corporations and Financial Services
PO Box 6100,
Parliament House
Canberra, ACT 2600

Email: joint@aph.gov.au

Dear Sean,

Australian Custodial Services Association Response to Oversight of ASIC, the Takeovers Panel and the Corporations Legislation – CHESS Replacement Project.

The Australian Custodial Services Association (**ACSA**) is the peak industry body representing members of Australia's custodial and investment administration sector. Our mission is to promote efficiency and international best practice for members, our clients, and the market. Members of ACSA include NAB Asset Servicing, J.P. Morgan, HSBC, State Street, BNP Paribas Securities Services, BNY Mellon, Citi, Clearstream, Netwealth and The Northern Trust Company.

Collectively, the members of ACSA hold securities and investments in excess of AUD \$4.3 trillion¹ in value in custody and under administration for Australian clients comprising institutional investors such as the trustees of major industry, retail and corporate superannuation fund, life insurance companies, responsible entities and trustees of wholesale and retail investment funds, and various forms of international investors into Australia.

ACSA thanks the Parliamentary Joint Committee on Corporations and Financial Services for the invitation to provide feedback on matters relating to the delayed implementation of the ASX CHESS Replacement Project, including the relevant oversight arrangements. ACSA looks forward to ongoing engagement with ASIC and the ASX regarding the oversight and progress of the CHESS replacement project. Custodians are extensive and experienced global users of clearing and settlement infrastructure around the world and our members have well-formed views around best practices and market efficiencies.

ACSA has the following feedback regarding the CHESS Replacement project:

¹ As at 31 December 2022, <https://acsa.com.au/page/IndustryStatistics>

Current CHESS

- Sufficient information is received on the operations of current CHESS. This is through a combination of daily and regular reporting and the ASX Business committee.
- Custodian participants generally have a high-level knowledge of the roadmap for ASX to maintain CHESS to 2032, but there has been little involvement in providing input to the roadmap and it is unclear whether technical industry gaps will be addressed. ACSA members also noted impacts of participants maintaining resources on current CHESS whilst additional resources are also deployed on CHESS replacement.
- There are frustrations around the ability to contribute to the direction of current CHESS and the 2032 roadmap. Whilst there are forums, surveys and consultations that consider clearing and settlement issues, ACSA members generally feel that there is limited opportunity to discuss these matters in the current forums and committees. It was noted that a “noisy” few can affect the agendas and outcomes.
- Current CHESS has a diversity of stakeholders, including issuers, clearers, settlement participants, the ASX and brokers whom all have differing needs and objectives. Technology, efficiencies, and rule changes are difficult to navigate through the various business and technical committees and boards. Custodian participants note that Austraclear, the debt CSD, does not face these same challenges and the Austraclear team have partnered with the industry to bring improvements into the settlement of debt securities in Australia.

Original CHESS Replacement project

- There are mixed views on the project execution and communication. There are ongoing communication forums and committees, however there are frustrations in the inconsistency of formal messaging versus perceived progress, scope changes without consultation, lack of knowledge of participant (Custodian) needs both locally and globally, and a feeling that communication and transparency was not at the expected level and not as timely as could have been expected.
- There are concerns about the approach to and the outcome of scope changes with a general view that for custodian clearing participants the final scops of the initial CHESS replacement was never locked down. This created concerns around the risk of go live, lack of functionality uplift to increase market efficiency and reduce market/investor costs, and the alignment of the proposed solution to international best practice did not seem to be considered. This created concerns around risk management, software development risks, resource availability, testing and business readiness.
- Custodian participants did not feel like they were engaged in or received information around the CHESS replacement design and solution selection. Both of which had a significant impact on all CHESS users without proper market consultation and participant assessment. Much of the design didn’t become clear until late in the project when it was clear the design was going to fail.
- Custodian participants had different approaches to testing whether they developed internally or engaged third parties. What was clear to ACSA members was that the ASX’s approach to testing seemed to be a one size fits all approach that did not adequately reflect the downstream

systems and STP needs for the testing phase, which was not consistent with the moving scope or aligned to development outcomes. The shifting scope created issues for resource deployment and project costs.

- There is concern regarding the level transparency in ASX responses to issues raised (go live big bang, roll back) and the mismatch between industry drive for efficiencies given pressure on margins and operational costs. It is also noted there needs to be further discussion on fee schedules.

New CHES Replacement Project

- There are forums and committees providing technical and business updates, however there is a general feeling of CHES replacement fatigue. ACSA members noted frustrations with regular engagement and discussion on significant issues, project relationships and knowledge has been lost, industry feedback is not always responded too. Many issues will require reengagement when a solution is chosen, however it is acknowledged that the new project structure seems to be making positive progress.
- There needs to be clear business cases reflect the industry needs as much as the ASX business need. The CHES Replacement project should be considered an infrastructure uplift, and appropriately balance any commercial project needs of the ASX. As Australia's only Central Securities Depository, CHES requires investment to improve its safety and accessibility.
- It may be worth considering individual industry participant meetings to ensure industry needs and desires are understood and ensure this is not dictated by the input of other market participant groups.
- It is further noted the technical committee needs further refinement to be fit for purpose and more detailed feedback is needed on the design and solutions whilst finalisation of scope should be clearly documented in a business case so participants can support investment and development of their own solutions to support the CHES design.

Governance and oversight

ASX Business Committee

- The business committee is dominated by the CHES replacement project and should be more forward looking on broader clearing and settlement matters, including covering all products including fixed income, ETD, futures clearing etc. This optimises industry resources across similar feedback mechanisms.
- The business committee operates generally in line with its terms of reference and noted that an independent chair maybe beneficial.
- The business committee is not operating as a decision-making committee.
- The business committee is an effective information sharing committee.
- The business committee should have permanent members from all market participants rather than rotational.

ASX CHES Replacement Project Technical Committee



- The scope discussions in the technical committee need to flow into design consideration and that there are a vocal few who dominate the discussions. It was also noted that whilst it generally follows the terms of reference it is yet to be seen if it drives successful outcomes for the functionality, technical and operational outcomes for CHES replacement.
- Some participants of the technical committee are not operationally or technically focused and can detract from the purpose of the meetings. It is suggested that each participant be able to send several members to the technical committee to ensure that sufficient industry knowledge and expertise is made available, however the ASX has rejected this request.
- The technical committee is not operating as a decision-making committee however operated broadly in line with its terms of reference.
- The technical committee is an effective information sharing committee.

The technical committee could benefit from an independent chair and the size of the group should be reviewed, particularly as the project moves through different phases from scoping to design, development, and testing.

Other

- The CHES replacement is a once in a generation opportunity to make significant changes and improvements to settlement and clearing and the opportunity needs to be optimised. It is also noted that the ASX could benefit from increasing understanding of client/participants use of CHES to become more informed as decisions are made on scope and design, including international benchmarking for automation, efficiency, and standardisation.
- Business Rule changes need to be documented and approved in a timely manner as technical changes take place.
- Additionally, it is noted that regulators may wish to consider the ownership structure of clearing and settlement and consider how international markets operate.

If you have any questions in relation to this submission please do not hesitate to contact me.

Yours sincerely

David Travers
Chief Executive office
Australian Custodial Services Association