

**Senate Economics Legislation Committee**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Supplementary Budget Estimates

2016 - 2017

**Division/Agency:** Australian Securities and Investments Commission

**Question No:** 207

**Topic:** ASX Event – 19 September

**Reference:** Written

**Senator:** Ketter, Chris

**Question:**

- 1) What steps does ASIC believe need to be taken to prevent events like the ASX failure on 19 September from happening again?
- 2) What is ASIC's opinion of the legacy CHESSE system that the ASX uses?
- 3) How have you satisfied yourself that the ASX will manage the replacement of the CHESSE system?

**Answer:**

1) Events like that which occurred on 19 September are historically rare in Australia, when measured against the experiences in other markets. ASX has identified the root cause (a hardware failure) that led to the technical failure on 19 September 2016 and is in the process of remedying this. However, whilst the likelihood of a repeat occurrence is reduced, there cannot be complete certainty that such events will not occur in the future, given the technical complexities of configuring a platform that supports increasingly sophisticated trading strategies. With this in mind, ASX is taking a number of steps to review and further enhance its response and recovery capabilities. These include evaluating the effectiveness of: incident monitoring tools, escalation procedures and the robustness of its current testing practices and procedures. ASX is also reviewing the effectiveness of the communication channels it has historically had in place for incident management, to assess whether improvements can be made – to best enable stakeholders to respond and take appropriate actions at times like this. ASIC is continuing an in depth review of the events of 19 September 2016, as well as the manner in which ASX and other stakeholders responded to these events. Independent of our engagement with ASX, ASIC has undertaken an extensive number of discussions with a wide range of market users. We will determine whether there are any changes beyond those which ASX is reviewing, which could enhance existing capabilities, and identify associated considerations for the equity market in Australia.

2) Although CHESSE is over 20 years old, it remains a world leading securities settlement facility, both in terms of settlement efficiency (99.91% of all CHESSE settlements occur successfully as scheduled) and system up-time (99.99% over the past 5 years). The relevant regulators (both ASIC and the RBA) monitor the performance of CHESSE and have a regular, on-going dialogue with ASX on both a technical and an operational level. Whilst there is nothing to suggest CHESSE will not continue to satisfactorily perform at its current level, it is built on technology that is more than two decades old and does not have the native flexibility to change or interface with modern systems without undertaking significant investment and operational risk. ASIC is supportive of the ASX initiative to replace CHESSE with more

contemporary technology using open standards, provided that at the very minimum, existing standards for business objectives, scalability, performance and security are maintained.

3) The financial market regulators, including ASIC and the RBA, have been actively involved in overseeing the initial review of the business requirements for the CHES replacement system. Whilst the project is still in its early days (it is likely to be a 3 year plus project), the regulators have attended a number of workshops and discussions over the last 6 months on the proposed CHES replacement model, to gauge ASX's progress to date. The regulators have stipulated that any replacement of CHES must meet stringent Australian and international standards (e.g. the CPMI-IOSCO Principles for Financial Market Infrastructures and the RBA's Financial Stability Standards ) as well as any other legal requirements set out in Part 7.3 of the Corporations Act 2001 (Act). ASX will be required to regularly report their progress to the regulators over the life of this project and to demonstrate that their obligations as a licensed clearing and settlement facility under the Act are being met at all times. The most recent post-trade project undertaken by ASX, the migration from a T+3 settlement regime to a T+2 regime, was extremely well managed by ASX and the transition was achieved smoothly and without incident. ASX's attention has been drawn to this project as a benchmark for the regulators' expectations for ASX and its management of the CHES replacement project. On 19 September 2016, ASX issued a consultation paper, seeking feedback on its proposed roadmap for the CHES replacement project. The regulators considered this as an important first step in ASX engaging with industry on the proposal. The consultation closed on 28 October 2016 and the regulators will review the responses ASX has received.