

## Issuer Services: New Pricing – response to Discussion Paper

### By email to

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I write this submission in a private capacity.

My submission is not to be taken as the thoughts of my employer, only my own.

Thank you for the opportunity to visualise ASX's plan for CHES transaction fees for the upcoming financial year and into the future.

My response focusses on the inequity of the combination of ASX Settlement and ASX Listing Fees for one service, the Primary Market Facility. I have compared the Primary Market facility to another clerical service offered under the same fee schedule, "Clearing, Settlement and Issuer Administration Services Schedule of Fees"<sup>1</sup> and parts of ASX Listing Fees.

The proposed set-up fees for two ASX Settlement administration services drawing largely on its clerical staff resources are compared side by side to highlight the disproportionate fees earned by ASX on the Primary Market Facility for what is a short duration, simple procedure driven, clerical activity.

	Primary Market Facility	Takeover Bid
<b>Set-up /Establishment Fee</b>	\$5,250	\$500
<b>Facilitation Fee</b>	\$0	\$1,000
<b>Ad valorem fees</b>	plus 0.0105% on the excess of the offer value over \$50m	\$0
<b>Duration of service</b>	One week (normal)	Approx. three months
<b>Number of stages (normal)</b>	Three; open, active, close	Six; open and conditional, offer period extend (three), declared unconditional, transfers open, close
<b>Bulletin</b>	One page	Two to three pages (proportional two separate bulletins of multiple pages)

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<sup>1</sup> <https://asxonline.com/content/dam/asxonline/public/documents/schedule-of-fees/clearing-settlement-and-issuer-administration-services-schedule-of-fees.pdf> (page 10/13 4.4 Primary Market Facility (PMF) and 4.5 Offer Administration)

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The proposed CHES Issuer Services fees for FY2022-23 lists these following two services and fees for activities that are core to the internal workings of the Primary Market Facility, but seem to have much higher overall fees charged for them inside the Primary Market Facility fees.

Product Code (and section references per current fee schedule)	Service	Current Fee (excl. GST)	New, Changed or Removed Fee
<b>4.1</b>	<b>Issuer Administration</b>		
06250020	Issuer Establishment Fee	\$500 per New Issuer Code created in CHES	No change
06250025	New Product Creation Fee	\$310 for each new financial product created in CHES and approved by ASX Settlement	No change

The fees <sup>2</sup> for specialist services by ASX when it reviews application for in-principle advice about listing or listing rules, presumably utilising more experienced and qualified professional staff are similar to the fees charged for clerical activities administered under procedures, but are set off against, not in addition to, the initial listing fee.

Reviewing an application for in-principle advice on the application of Listing Rule 1.1 condition 1 and Listing Rule 1.19 to an applicant for listing or to an entity required to re-comply with ASX's admission and quotation requirements under Listing Rule 11.1.3	\$5,000 (If the listing proceeds or the entity is successful in re-complying with ASX's admission and quotation requirements (as applicable), this amount will be set off against the initial listing fee)
Reviewing an application for any other in-principle advice in advance of, and in connection with, an application for listing	\$5,000 (If the listing proceeds, this amount will be set off against the initial listing fee)

So, I believe there is some clash in the fee charging thought process and the quantum of fees for the Primary Market Facility which do not align well with the effort or staff seniority required to manage the activity when compared to other ASX services.

Since the first use of DvP settlement for the wholesale and sophisticated portion of the IPO of Cable and Wireless Optus Limited (CWO:ASX) in 1998, and formalisation of the Primary Market Facility, ASX has charged issuers a high set-up fee compared to other ASX Settlement services and an open ended ad-valorum fee for larger transactions that is not easily relatable to the effort required to initiate, implement and manage the service of DvP settlement for the distribution and settlement of offers. ASX is also charging an ad-valorum increase in ASX Listing Fees for the issuer when it lists the new securities.

It is not uncommon to see five ASX bulletins a day reporting that the Primary Market Facility is being used by issuers and their lead manager(s) for; placements, settlement of the institutional portion of a rights issue, or a rights issue retail shortfall, or an initial public offer.

The schedule of bulletins announcing DvP settlement on <https://asxonline.com/public/search> for the last week is representative.

14 April **five** deals, 12 April **three** deals, 11 April **four** deals, 8 April **three** deals, 7 April **twelve** deals.

<sup>2</sup> [https://asxonline.com/content/dam/asxonline/public/documents/schedule-of-fees/asx\\_029722.pdf](https://asxonline.com/content/dam/asxonline/public/documents/schedule-of-fees/asx_029722.pdf) (page 5 Table 3A – Additional fees (effective from 1 July 2016))

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Each event carrying a minimum set-up fee<sup>3</sup> of: \$5,250 plus 0.0105% on the excess of the offer value (ad-valorem fee if the placement, shortfall, IPO is **capable** of settling) over \$50 million).

It is not uncommon for a wholesale offer to deliver less than 500 lines of settlement, which coincidentally the issuer also pays for, instead of the respective settlement participants.

So, for the set of deals above (7 April to 14 April) taken randomly from recent published bulletins, 27 deals and a minimum of \$141,750 in set-up fees for the week.

In addition, ASX has charged each issuer an ad-hoc increase in Listing Fee based on the tiered fee table below extracted from ASX Listing Rules Guidance Note 15A.

### Fees for quotation of additional securities (effective from 1 July 2021)

Table 1C – fee for quotation of additional equity securities and debt securities (other than simple corporate bonds<sup>5</sup>) on the ASX market.

Value of securities for which quotation is sought <sup>6</sup>	Fee
Up to \$100,000	\$1,250
\$100,001 to \$500,000	\$1,250 + 0.56272603% on excess over \$100,000
\$500,001 to \$2.5m	\$3,501 + 0.32349000% on excess over \$500,000
\$2,500,001 to \$10m	\$9,971 + 0.16879715% on excess over \$2.5m
\$10,000,001 to \$20m	\$22,630 + 0.07876100% on excess over \$10m
\$20,000,001 to \$50m	\$30,507 + 0.07032525% on excess over \$20m
\$50,000,001 to \$100m	\$51,604 + 0.05401135% on excess over \$50m
\$100,000,001 to \$500m	\$78,610 + 0.04880666% on excess over \$100m
Over \$500 million	\$273,836 + 0.04239398% on excess over \$500m

For a new class of quoted securities, a New Product Creation Fee of \$310.00 will also apply (detailed in the [Clearing, Settlement and Issuer Administration Services Fee Schedule](#), Product 06250025). This fee only applies where a new class of quoted securities is being created and quoted.

If the placement has raised \$50 million the additional ASX listing Fees for the additional securities are \$51,604.

I argue the additional Listing Fees are more than enough ‘compensation’ for the human labour used to manage a simple clerical activity of; processing a short application form from the issuer or its managing participant, creating a new security code and ISIN in ASX’s own systems, publishing a standard, simple bulletin and on the completion of settlement closing down the service on the allocation interest.

ASX’s own CHES procedure guidelines<sup>4</sup> for CHES users devote only seven pages to explaining all the service activities for participants, so it indicates a basic and easy to manage activity.

So, I would expect a fee for the whole Primary Market Facility of:

- in the vicinity of \$1,500 (equivalent to ten hours of experienced clerical staff’s time); and
- no ad-valorem component

particularly when compared to the fees ASX Settlement charges a bidder to establish and manage a takeover bid would be a more equitable charge.

<sup>3</sup> <https://asxonline.com/content/dam/asxonline/public/documents/schedule-of-fees/clearing-settlement-and-issuer-administration-services-schedule-of-fees.pdf> (page 10/13 4.4 Primary Market Facility (PMF))

<sup>4</sup> [https://www.asxonline.com/content/dam/asxonline/public/documents/manuals/chess-asx-settlement-procedure-guidelines/asx\\_019808.pdf](https://www.asxonline.com/content/dam/asxonline/public/documents/manuals/chess-asx-settlement-procedure-guidelines/asx_019808.pdf)

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Over the last fifteen years hundreds, if not thousands of issuers have paid these Primary Market Facility fees. Over this period with so much repetition ASX should be now be in a position to hone the service required and reduce the cost of doing business with ASX.

When CHESS was first established the transaction fee regime was based on a combination of the share of savings presented to a user cohort and ASX's estimated share of the cost of providing that service but on a very different set of economies of scale. The Primary Market Facility calls on none of those inspirations for its current fees.

I will leave the responses on the routine fees paid by issuers for ASX Settlement's routine transaction fees to the issuers. It will be the issuers themselves who are best placed to examine the proposals in the context of their own registers, future plans, their past experience of special events imposed on or presented to their investors and their advisers experience in such matters.

Given the overlap with the intended go-live date for CHESS Replacement and the absence of any official published Business Case and actual transaction fees for CHESS Replacement we may take this as a guide for ASX's intentions for CHESS Replacement. Some may argue the mooted benefits of CHESS Replacement have not materialised in the 'Day 1' scope and there has been no efficiency dividend proposed for CHESS users from the retirement of the last of ASX's mainstream legacy systems, only a promise that CHESS Replacement will cost no more for the services you currently use.

I encourage ASX to make the effort to better explain the benefits it believes will come to CHESS Users and its business case for the retirement of ASX's older CHESS technology.

Yours sincerely

Stephen Dear