



CHES Replacement Project

**Implementation & Transition
Webinar**

3 June 2021

Housekeeping: trouble shooting

- Check your system requirements
- Audio options:
 1. Use your computer's mic and speakers ("Computer audio"). Check that your computer's audio is unmuted
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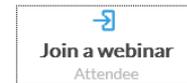


- ✔ OS - Windows 8.1
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- ✔ Internet connection - Strong
- ✔ Flash - Enabled

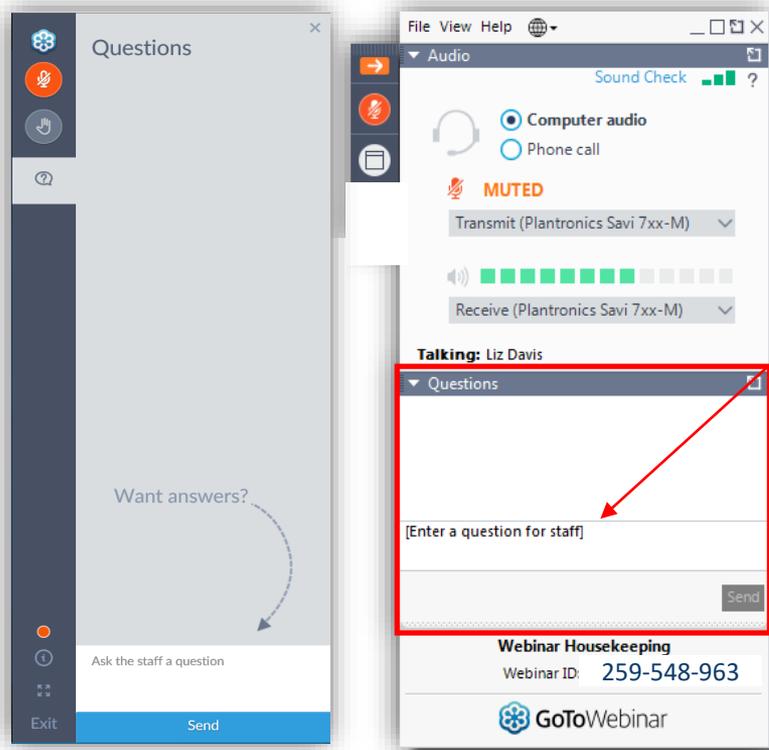
Test your system again

View System Requirements

Next steps



Housekeeping: how to submit questions



Your Participation

- To submit your text questions and comments use the Questions panel
- Note that your questions will not be seen by other attendees

For more information - refer to the webinar tips published on the ASX [CHES Replacement web page](#)

Agenda

-
- Overview of ASX's response to consultation feedback
-
- Feedback received from the consultation process
-
- High level overview of confirmed solution and key changes post consultation
-
- Worked example of investigating a reconciliation break
-
- Key project milestones
-
- Electronic CHESS holding statements
-
- Update on corporate actions STP
-
- Q&A
-
- Next steps
-

Presenters and introductions



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Replacement



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Karen Webb
Senior Manager,
Equity Post Trade
Services

Overview of ASX's response to consultation feedback

Consultation paper and feedback

Overview of ASX's response

- > Consultation on proposed changes to netting and settlement workflow closed 18 March
- > ASX carefully considered feedback from 30 organisations, and included bilateral engagement with participants, software vendors and industry associations to follow up on responses
- > There was broad acceptance that post-trade processing should not constrain trading activity levels. Some also asked ASX to reconsider some design proposals to reduce perceived risks
- > **ASX will make important modifications to address concerns around risk, and having regard for the remaining feedback, will proceed with changes to the netting and settlement workflows as proposed in the consultation paper.**
The modifications will enrich messaging (as outlined to the Technical Committee) and provide an additional report to simplify participants' reconciliations and investigations
- > The confirmed solution allows for:
 - Additional capacity uplifts from Day 1 to avoid post trade processing constraints on trading activity
 - Avoiding the need for further changes post go-live to achieve the required uplift
 - ASX to build market infrastructure for the future that meets the high reliability, stability and resiliency standards expected by stakeholders and driven by RBA's Financial Stability Standards
- > There is no change to the opening of Industry Test Environment (ITE1) in late Nov '21 or go-live in Apr '23

Feedback received from the consultation process

Consultation feedback

High level summary of key themes

- > ASX aims to release its response to consultation by end Jun '21. Key themes in consultation feedback include:
 - Acceptance that post trade processing should not constrain trading activity
 - Support to expand netting to all novated trades to improve efficiency and lower costs
 - Consider changes to reduce delivery and perceived operational risks for the market
 - Consider additional reporting due to more challenging issues with reconciliation and investigations
 - Many back office systems rely on receiving NBO information to close out novated gross market trades
 - Little support for trade cancellations after trade date
 - Novated net delivery positions (NNDP) to be finalised on the day prior to settlement (S-1)
 - Independent risk review on the proposed changes

High level overview of
confirmed solution and
key changes post
consultation

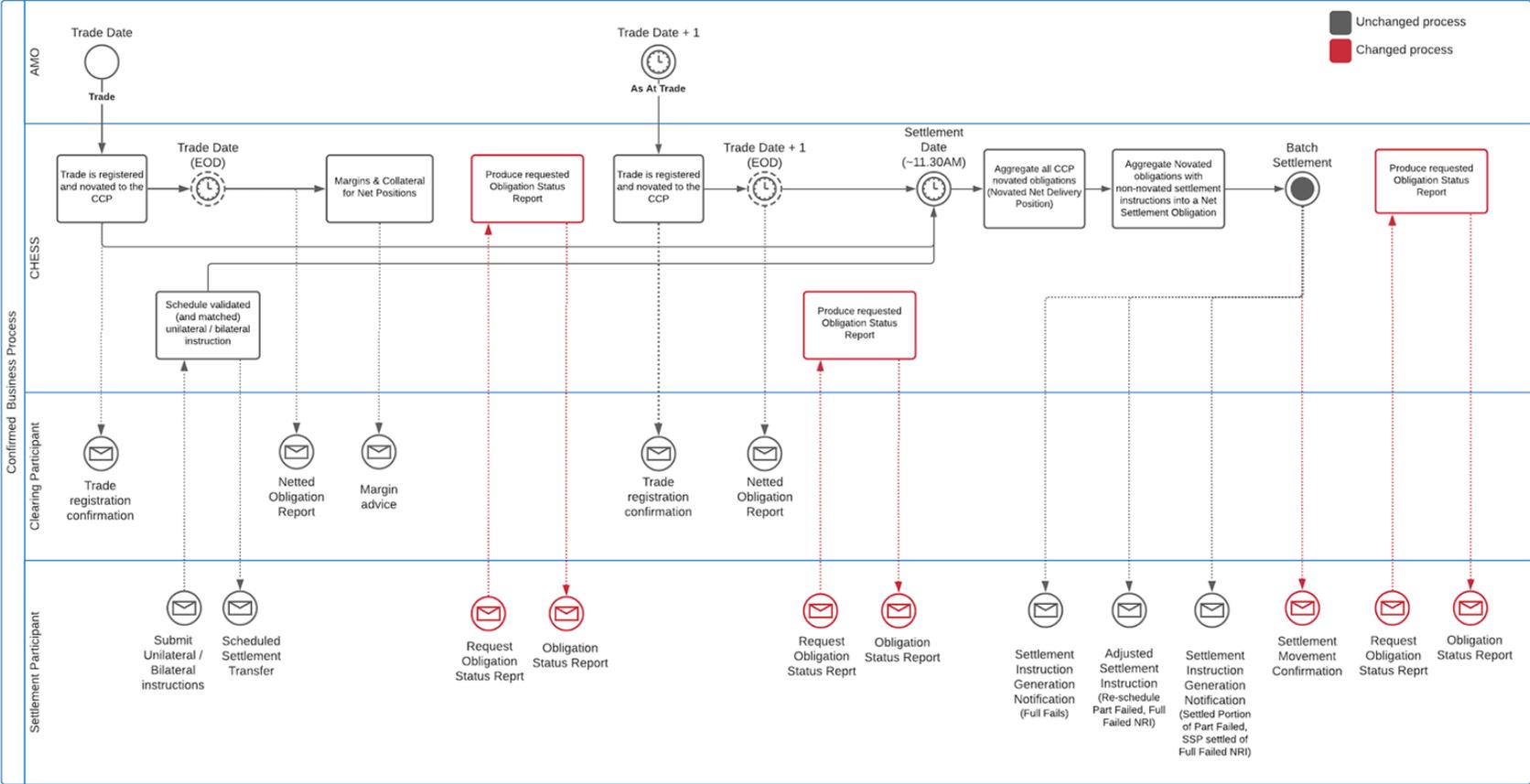
Confirmed solution design

Key design principles

- > No change to trade registration
- > Netting calculation is represented via the Novated Net Delivery Position (NNDP) which replaces the NBO
 - All novated market trades are netted without exceptions
 - The NNDP can be updated on T+1 as a result of late reported trades
 - Margins continue to be calculated on the net position, and communicated as per current process via Margin Advice
 - Trade cancellations post T by AMOs and Participants are no longer allowed
- > Batch settlement outcomes is reported on a net unit and funds basis per settlement instruction type for all fully settled obligations, whilst full or partial fails continues to generate individual settlement confirmations
- > Additional reporting introduced to investigate reconciliation breaks on the NNDP and the net settlement movement

Netting and Settlement Workflows

Confirmed business process



Updates to NNDP

Trade cancellations not supported post Trade Date

In response to consultation feedback, trade cancellations post trade date will not be supported in the new system.

CHES

- ✓ Trade Cancellation on T initiated by AMO
- ✓ Trade Cancellation for non-netted trades up until Settlement, initiated by Participant
- ✓ Trade Cancellation for netted trades up until T+1 (requires un-netting initiated by ASX Ops prior to the trade being able to be cancelled)
- ✓ Transfer, cancel or re-schedule obligations up until S by ASX Ops under exceptional circumstances (default, court order, etc.)

CHES Replacement

- ✓ Trade Cancellation on T initiated by AMO
- ✗ Trade Cancellation for non-netted trades up until Settlement, initiated by Participant - no longer supported, given all trades are considered netted
- ✗ Trade Cancellation for netted trades up until T+1 (requires un-netting initiated by ASX Ops prior to the trade being able to be cancelled)
- ✓ Transfer, cancel or re-schedule obligations up until S by ASX Ops under exceptional circumstances (default, court order, etc.)

Net settlement movement

Count, units and values settled

- > The net settlement movement confirmation (sett_136) will be enhanced to incorporate the funds associated to the settlement obligations contributing to the net settlement movement
- > The system generates a Net Settlement Movement (sett_136) for each Account (HIN), Security and Basis of Movement combination where there are one or more “settled” obligations
- > In response to consultation feedback, a breakdown of settlement obligations contributing to the overall net movement will now include units, funds settlement amount and counts for each of the following instruction types (regardless of payment type):
 - Novated Gross Market Trades (which make up the NNDP)
 - Novated Settlement Failures (representing failure of a portion of the NNDP)
 - BSSI, USSI, NRIs (including SSP adjustments) and Non-Novated Gross Market Trades

Reporting

Expanded reporting capability available pre and post settlement

In response to consultation feedback and to assist in reconciliation break investigation, demand reporting will be available both pre settlement to enquire on breakdown of Netted Obligation Report ('NNDP'), and post-settlement to enquire on the net settlement movement:

- > The Obligation Status Report will assist Participants with their reconciliation activities in two areas:
- > Pre-settlement:
 - Obligation Status report, can be requested ad hoc, for a specific HIN, Security, and Movement Type combination
 - Allow for reconciliation of all registered novated Gross Market Trades against the NNDP
 - Obligation Status Report can also be requested for all other settlement instruction types
- > Post-settlement:
 - Obligation Status report, can be requested ad hoc, for a specific HIN, Security, and Movement Type combination
 - Allow for reconciliation against the Settlement Movement Confirmation

Batch cancellation and security state changes

NNDPs rescheduled via the NSF / NRI paradigm

In the event of batch cancellation, CHES Replacement will notify participants as per currently specified functionality and message (sett_170).

The system will reschedule obligations to the following settlement date, as follows:

- > NNDPs (which comprises the totality of market trades) re-scheduled using the NSF / NRI paradigm on a 1:1 basis.
 - Participants notified via Settlement Transaction Generation Notification (sett_130) message for each NNDP that has given rise to a rescheduled NSF / NRI (as per current paradigm)
 - Participants notified of a zero net movement of financial product via the receipt of a Settlement Movement Confirmation (sett_136) incorporating each NNDP and the offsetting NSF generated as a result of the cancellation of batch settlement

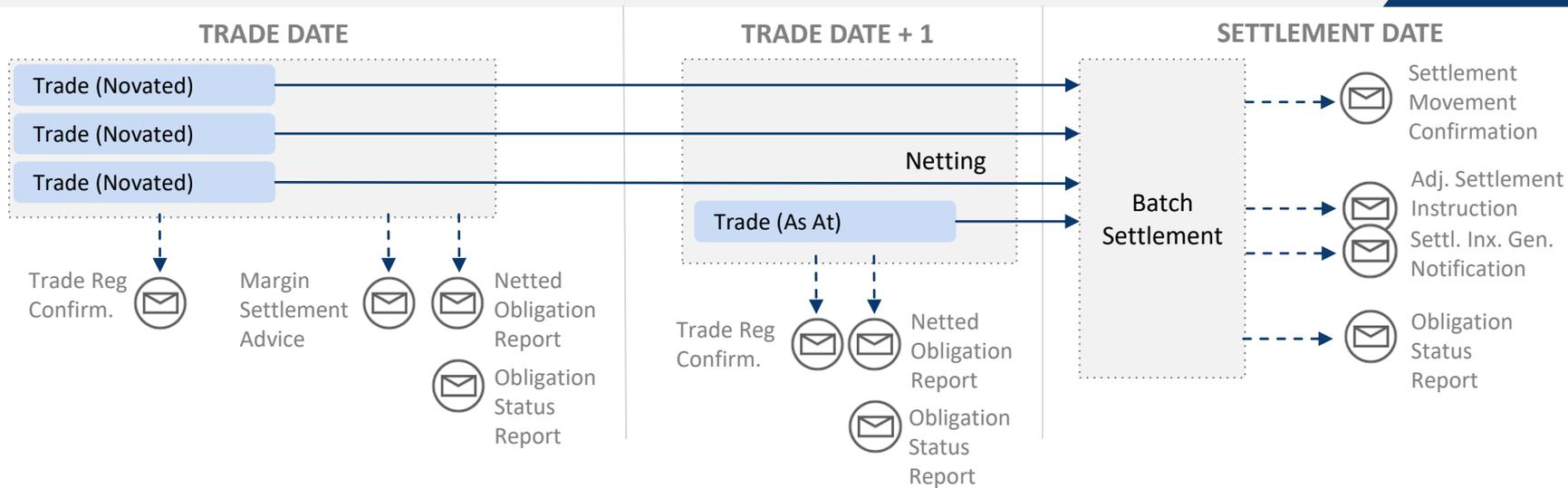
- > Bilateral and Unilateral Scheduled Settlement Instructions, Non-Novated Gross Market Trades, and Novated Rescheduled Instructions rescheduled to the next business day as per current process in CDE
 - Participants notified via the receipt of a Settlement Transaction Generation Notification (sett_130) message for each re-scheduled instruction, maintaining its original obligation ID

Rescheduling of NNDPs when Security is in a Suspended, Closed or Archived State will follow the same process as outlined above.

Worked example of investigating a reconciliation break

Reconciliation for market trades

Front to back reconciliation for operational risk management



Trade Registration Confirmations:

T1: D 10 Units, \$10
 T2: R 5 Units, \$5
 T3: D 5 Units, \$5

Margin Settlement Advice:

CMM on D 10 Units, R \$10

Netted Obligation Report:

D 10 Units, R \$10

(on request) Obl. Status Report:

T1: D 10 Units, R \$10
 T2: R 5 Units, R \$5
 T3: D 5 Units, R \$5

Trade Registration Confirmation:

T as at: D 10 Units, R \$10

Netted Obligation Report:

D 20 Units, R \$20

(on request) Obl. Status Report:

T1: D 10 Units, R \$10
 T2: R 5 Units, R \$5
 T3: D 5 Units, R \$5
 T as at: D 10 Units, R \$10

Net Settlement Movement Confirmation:

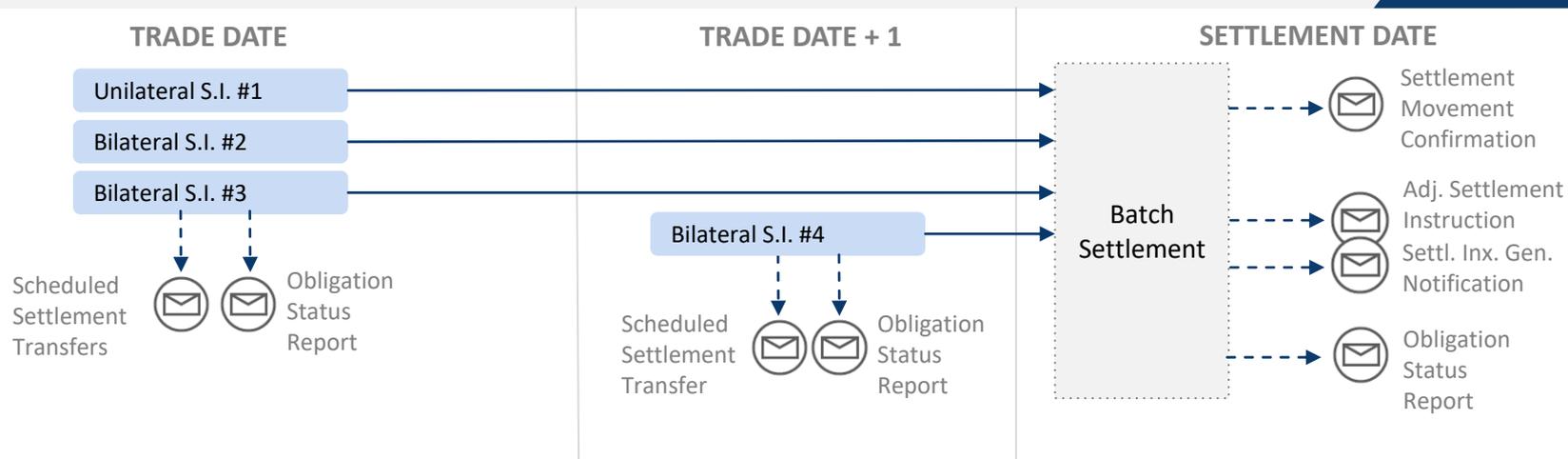
D 20 Units, R \$20

(on request) Obl. Status Report:

T1: D 10 Units, R \$10
 T2: R 5 Units, R \$5
 T3: D 5 Units, R \$5
 T as at: D 10 Units, R \$10

Reconciliation for unilateral and bilateral settlement instructions

Front to back reconciliation for operational risk management



Scheduled Settlement Transfers

USSI #1: D 10 Units, R\$10
 BSSI #2: R 5 Units, D \$5
 BSSI #3: D 5 Units, D \$5

(on request) Obl. Status Report:

USSI #1: D 10 Units, R\$10
 BSSI #2: R 5 Units, D \$5
 BSSI #3: D 5 Units, D \$5

Scheduled Settlement Transfers

BSSI #4: D 10 Units, R \$10

(on request) Obl. Status Report:

USSI #1: D 10 Units, R\$10
 BSSI #2: R 5 Units, D \$5
 BSSI #3: D 5 Units, D \$5
 BSSI #4: D 10 Units, R \$10

Settlement Movement Confirmation:

D 20 Units, R \$20

(on request) Obl. Status Report:

USSI #1: D 10 Units, R\$10
 BSSI #2: R 5 Units, D \$5
 BSSI #3: D 5 Units, D \$5
 BSSI #4: D 10 Units, R \$10

Reconciliation

Front to back reconciliation for operational risk management

All information required for front to back reconciliation and management of operational risk available:

- > Each trade registered in CHESS Replacement generates a Trade Registration Confirmation message, which can be reconciled to AMO confirmation, such as FIX or Signal B.
- > The Novated Net Delivery Position ('NNDP') provides a netted quantity and value calculation of a Participant's obligations. This net obligation view is reported at T and T+1, taking into account any additional trades registered on T+1 (e.g. due to options exercise). The NNDP can be reconciled to Trade Registration Confirmation messages.
- > In the event of a reconciliation break with the NNDP reported, Participants can request the Obligation Status report, to identify all Novated Gross Market Trades for a HIN, Security, and Settlement Date combination.
- > Full / partial failure of unilateral and bilateral settlement instructions is communicated via the Adjustment Settlement Instruction and Settlement Instruction generation Notification messages, per failed instruction
- > Reconciliation of settlement for market trades largely as per already consulted on CDE functionality:
 - The net of all fully settled market trades reported via the enhanced Settlement Movement Confirmation
 - Failures of market trades are re-scheduled on a net basis via the NSF / NRI paradigm (as per current CDE)
- > In the event of reconciliation breaks against the Settlement Movement Confirmation, Participants can request the Obligation Status report to identify all obligations (or a specific obligation type) for a HIN, Security, and Settlement Date combination.

Key project milestones

Key project milestones

- > To accommodate the changes, ASX has conducted a detailed review of all project activities and milestones and has modified the implementation timetable as follows:
 - Publish the revised functional specifications and messaging requirements at end of Jun '21
 - Publish ASX 's formal reply to consultation feedback targeting end of Jun '21
 - Deliver the netting and settlement functionality in CDE10 at end Aug '21, instead of Jun '21
 - Combine CDE11, targeted for end of Sep '21, with CDE 10 to complete the functional build for Day 1 go-live
 - Tranche 3 rules consultation, including the consolidated rules set, to commence end Aug '21, instead of early Aug '21
- > No other project milestones are impacted by this change.
 - ASX still plans to open ITE1 at the end of Nov '21 and commence technical accreditation activities from end Apr '22
- > Industry test strategy targeted to be published end Jun '21

Electronic CHES holding statements

ASX CHESS eStatements

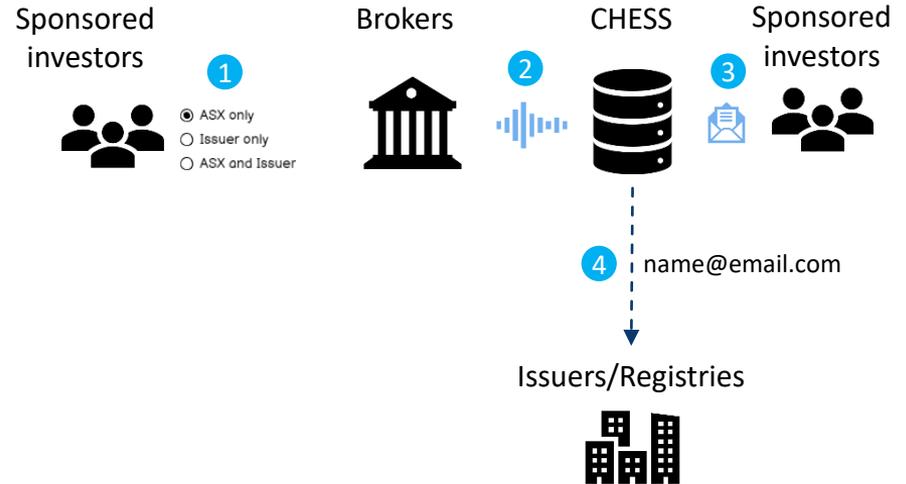
Overview

- > Technical Overview of eStatements solution to be released this month
- > Targeted go live is Q4 2021, subject to feedback from participants on Technical Overview document
- > Primary considerations for participants:
 - Does the participant have the functionality to send emails to CHESS via an EIS 201 or 203 message?
 - How will participants collect elections to participate in eStatements?
 - Will investors be asked to elect into just ASX electronic communications and/or will they be asked if they consent to emails being provided to issuers?
 - What additional procedures/training/automation is required to handle the new electronic returned mail solution and obtain correct addresses from investors?

CHES Holding Statements – overview

Participants will provide emails to CHES via messaging

1. Investors will elect for electronic delivery via their sponsoring participant
 - Consent may include that email address can be provided to issuers via CHES
2. Participants will send email address and consent election to CHES via messaging
 - Participants will be electronically notified of bounced emails and returned mail
3. CHES will send statements to issuers
4. Where the investor has consented via their participant emails will be provided to issuers (via their registry)



Investor - onboarding

System requirements

- > EIS 201 (new accounts) remains unchanged
- > EIS 203 (changed details) message containing only, email and communication preferences – NO CHARGE to participants
- > Electronic statements opt in will only be effective from go-live
- > This is existing functionality for some participants and will be mandatory functionality for CHES Replacement

Legal requirements

- > Sponsoring participant must satisfy its own privacy authorisations. Is additional consent required from investors or do current investor consent and instructions contemplate moving investors to electronic CHES Statements?

Processes requirements

- > Sponsoring participants who offer electronic CHES Statements should have a process in place to update email addresses promptly upon advice from their customer of a change or of a bounced email

Accessing electronic statements

Portal design

- > Password protected, one login per HIN, login can not be email address or HIN
- > Limited functionality – view statements and notifications and change of username and password only
- > More complex requests (eg change of address) directed to participant

Current and historical statements

- > Available only for investors who have elected for electronic CHES Statements
- > View of at least 3 years of historical statements (starting from go-live)
- > Older statement reprints can still be ordered in the usual fashion

How to read your CHES holding statement

The diagram illustrates the layout of a CHES Holding Statement with callouts explaining key sections:

- The issuer's name and logo:** Points to the ASX Settlement Pty Ltd logo and contact information.
- Your name and address as registered in CHES:** Points to the account holder information: ABCD PTY LTD, PO BOX 1000, STONEY RIDGE NSW 2000.
- The security to which the statement relates:** Points to the transaction header: ABC - ORDINARY FULLY PAID.
- Date the transaction is recorded in your CHES holding:** Points to the 'Date' column in the transaction table.
- Description of the transaction:** Points to the 'Transaction Type' column in the transaction table.
- The transaction ID is a supplementary reference and may be useful for enquiries:** Points to the 'Transaction ID' column in the transaction table.
- Important messages will appear here:** Points to the 'Final Holding Balance to 17 Oct 18' row in the transaction table.
- Details of your CHES sponsor – your first point of contact:** Points to the 'CHES HOLDING STATEMENT' header and sponsor information.
- Your unique CHES number. Keep your HIN confidential and only disclose it in dealings with your CHES sponsor:** Points to the 'Holder ID Number (HIN): 0000000001'.
- Your balance in the security after being adjusted by the transaction:** Points to the 'Balance' column in the transaction table.
- Number of units that will increase or decrease your balance:** Points to the 'Quantity' column in the transaction table.
- Ex/Cum status of a transaction processed in the ex period may appear here:** Points to the 'Ex/Cum Status' column in the transaction table.

Date	Transaction Type	Transaction ID	Ex/Cum Status	Quantity	Holding Balance
Balance Brought Forward From 01 Dec 20					
				20400	20400
01 Oct 18	Movement of Securities due to	018000118814000			
04 Oct 18	Movement of Securities due to	018000118814000	18018	18018	18018
07 Oct 18	Movement of Securities due to	018000118814000		1242	20400
16 Oct 18	Movement of Securities due to	018000118814000		6921	19479
17 Oct 18	Movement of Securities due to	018000118814000		6921	20400
Final Holding Balance to 17 Oct 18					
					20400

Disclaimer: ASX Settlement Pty Limited ("ASX Settlement") operates CHES. This statement is issued by ASX Settlement under the ASX Settlement Operating Rules ("Rules") this statement, nor for the administration of CHES. ASX Settlement's responsibility is limited to the correction and reissue of any inaccurate information. The closing balance transactions that have not been effected on the CHES subregister as at the End of Day (as defined in the Rules) on the day indicated. Reliance should not be placed on the complete record of the current holding.

Returned mail

Electronic portal and secure FTP

- > Bounced mail report (paper and email) will be delivered at least weekly via asxonline.com.au and also via a secure FTP services ftp.asx.com.au to allow for simple automation

ASX Online

- > Many participants already have a login
- > Participant's Enterprise Administrator will assign access to new employees with the relevant entitlements

Reports

- > CSV file with no private identifying information. HIN allows identification of customer from participant's records
- > Returned mail reports will cover both postal and electronic failures to deliver

Next steps

- > Review and if necessary, provide feedback on Technical Overview document
- > Consider key questions:
 - Does the participant have the functionality to send emails to CHESS via an EIS 201 or 203 message?
 - How will participants collect elections to participate in eStatements?
 - Will investors be asked to elect into ASX electronic communications or will they be asked if they consent to emails being provided to issuers?
 - What additional procedures/training/automation is required to handle the new electronic returned mail solution and obtain correct addresses from investors?
- > Contact andrew.jones@asx.com.au

Update on corporate actions STP

Corporate Actions STP Phase 2 project

Release 3 (final release) – to be implemented Saturday 5 June 2021

For issuers (focus on announcements for capital raisings, capital changes):

- > Linked to Listing Rule, Appendix and related Guidance Note changes – effective 5 June
- > Updates to existing online forms: Appendix 3B (proposed issue of securities) (now full STP), Appendix 3A.1 (Dividends), Appendix 3A.2 (Interest Payments)
- > New online forms with STP: Appendix 2A (application for quotation), Appendix 3C (notification of buy-back), Appendix 3H (cessation of securities)
- > New online form: Appendix 3G (unquoted security changes)
- > Key changes outlined in Listed@ASX Compliance updates - [no. 4/21](#) published 27 May 2021, and [no. 5/21](#) published 2 June 2021
- > Some market announcement report types will be changed/added, as notified by [Market Notice](#) dated 26 April 2021

Corporate Actions STP Phase 2 project

Release 3 (final release) – to be implemented Saturday 5 June 2021

For market information subscribers – ISO 20022 corporate action notification service:

- > Final ISO 20022 event (OTHR) added to ISO 20022 service; now full coverage of all ASX supported events*
- > All ISO 20022 corporate action event notifications in production (25 events + BAH + cancellation) – SWIFT, FTP channels (same to be ingested by CHESSE Replacement)
- > Additional events now STP'd in real time from issuer announcement through to ISO 20022 notification service – e.g. bonus, non-renounceable, renounceable, security purchase plan, on-market buy-back
- > Usage guidelines available in SWIFT MyStandards - ASX STP Corporate Action Working Group community
- > Service and subscription queries - email: Magda.chivers@asx.com.au; Information.Services@asx.com.au

*notification service includes all events supported by ASX whether captured by STP or manually

Q&A

Next steps

Next steps

Review and feedback:

- > Webinar recording, slides and Q&A will be published on the CHES Replacement webpage
- > Provide feedback by contacting CHESReplacement@asx.com.au – use “I&T webinar” as the subject heading
- > Feedback welcome by COB Friday, 16 Jun '21

Market documentation, CDE and response to consultation feedback

- > Publication of updated technical specifications on netting and settlement workflow, end Jun' 21
- > Formal reply to consultation feedback on proposed changes to netting & settlement workflow, end Jun '21
- > CDE10 code release, end Aug '21

Next I&T Working Group meeting:

- > Date: 30 June 2021
- > Topic: Industry testing strategy

Thank you.



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