

# Issuer Update

ISSUER READINESS & DATA GOVERNANCE ARRANGEMENTS FOR CHESS REPLACEMENT | April 2021

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## Purpose

ASX will update listed entities and issuers of exchange-traded products (together “issuers”) regularly on progress and any actions required to prepare for CHESS Replacement which is targeted to go-live in April 2023.

The purpose of this update is to inform issuers about some potential changes to their constitution, policies or other documents and ASX’s proposed data governance arrangements for CHESS Replacement. ASX has provided the information below to assist issuers decide if any action is needed before CHESS Replacement in April 2023.

## CHESS Replacement

CHESS is ASX’s system that clears and settles trades in Australia’s equity markets. It also maintains the CHESS sub-register of security holdings on behalf of over 2,200 issuers and provides a number of issuer-related services.

CHESS Replacement will modernise and upgrade critical market infrastructure and enable processes to be digitised, increase efficiency and capacity, reduce risk, deliver new functionality, lower barriers to entry for service providers, and stimulate product development and innovation.

When CHESS Replacement goes live many issuers will not notice any immediate changes and there will be no increase in existing published fees. Issuer service partners, like share registries, will continue to provide services to you, and are mapping their current software to the new upgraded and internationally recognised ISO 20022 messaging standard.

CHESS Replacement will include some new system features, like improved processing for corporate actions. Some of these features may require some changes from issuers.

## Changes to documents

Issuers may want to consider whether they should amend their constitution (or trust deed) for an enhanced feature in CHESS Replacement.

Additionally, an issuer who operates a Dividend/Distribution Reinvestment Plan and/or a Bonus Share Plan, will need to consider whether changes to plan rules are required to allow for a new holder election channel via CHESS.

## Constitution

CHESS currently involves the recording of holder registration details in an unstructured format, with the number of possible joint holders for each HIN not being system-determined but instead tied to the practical 180 character limitations on recording holders’ names, address and any other relevant registration details. CHESS replacement will involve the recording of holder registration details in a structured format, and will allow up to four joint holders of a security.

In most instances, issuer constitutions limit the number of registered joint holders of a security to three joint holders. This is also supported by rules-based restrictions on participants’ establishing holder records in CHESS with more than three joint holders unless permitted under the issuer’s constitution. If an issuer’s constitution contains a limitation on the number of joint holders of a security, this may be an opportunity to remove this restriction or amend the limit.

As constitutional changes are often tabled at an annual general meeting this may be an item for consideration now given the target go-live of CHESS Replacement of April 2023.

### **Dividend/Distribution Reinvestment Plan (DRP) and Bonus Share Plan (BSP) rules**

If a holder holds their securities on a HIN then CHES replacement will allow that holder's sponsoring broker to make an election on their behalf to participate in an issuer's DRP and/or BSP.

This functionality currently only exists for Managed Funds/mFunds but it will be expanded to all securities offering DRP and/or BSP. As broker participants and custodians move to support this channel this will provide a new and efficient method for holders to make DRP/BSP elections. It is optional for broker participants and custodians to provide this service. All share registries are however required to support this election channel.

Issuers with a DRP and/or BSP will need to consider whether amendments are required to their plan rules to ensure that elections received via CHES replacement are recognised as valid under the plan rules, and if so, the requirements for making such amendments (e.g. notification by market announcement or other notification to participating security holders).

Such changes may be required to support warranties and indemnities from issuers under the operating rules that holders can apply to participate and cancel their participation in the DRP and/or BSP using the new election method through CHES.

Issuers will not be charged by the ASX for this new communication channel as CHES participants will bear the cost to use this service.

### **Service provider readiness activities (share registry)**

ASX launched its Customer Development Environment ("CDE") in April 2019. CDE provides an isolated application development and low volume testing environment for CHES users and software vendors. Share registries have had the opportunity to test relevant features since August 2019.

ASX anticipates share registries will undertake a range of readiness activities approaching the April 2023 go-live date. These include:

- Technical accreditation
- Operational readiness
- Participation in mandatory dress rehearsals (minimum three)
- Attestation of their readiness

### **Data governance**

On 4 December 2020, ASX published an [information paper on data governance](#) under CHES and CHES Replacement. This information paper is available for your reference.

The paper explains ASX's data governance arrangements under CHES which will continue to apply under CHES replacement. There will be only limited updates to the data that is received and how it is managed under the new system. These are outlined in the paper.

The paper also outlines the key features of ASX's group-wide data governance framework which applies to all data held across ASX, including group-wide policies and procedures for data management. It explains ASX's arrangements for the confidentiality, security, and integrity of data received by CHES and compliance with applicable data protection laws.

The paper also outlines enhancements that ASX is making to its existing robust arrangements for privacy and protection of data received by CHES, which are being made as a part of ASX's ongoing focus on privacy and data protection across its organisation.

### **Electronic CHES Holding Statements**

ASX will soon move to provide an electronic delivery option to investors for CHES Holdings Statements.

Issuers will not need to take any action to implement this change. Elections to participate in the receipt of electronic statements will come via a holder's broker. If a holder also elects for electronic communications from issuers, their email



address will also be passed through to share registries, helping to eliminate more paper deliveries across the entire industry.

Issuers should consult with their share registry to confirm the action that will be taken when an investor has elected via ASX for electronic communications from the issuer.

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