Computershare

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ASX Limited
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Attention: Karen Webb

By email: issuers@asx.com.au

NOT CONFIDENTIAL

Dear Karen

ASX's Issuer Services: New Pricing discussion paper

Thank you for the opportunity to provide comment on ASX's proposed new fee model as outlined in your Issuer Services: New Pricing discussion paper.

We make this submission as an active user of CHESS and its related services on behalf of our more than 750 issuer clients in Australia and New Zealand, who are listed across multiple exchanges.

Not a simple comparison

Analysis of ASX's proposed new fee structure is not a simple task. The introduction of a tiered subscription fee, replacing a range of transactional fees creates a perception of simplicity however the process of comparing the current fee versus the proposed future state is complicated and at times not clear.

This is reflected in the feedback we have received from our clients which suggests that some issuers have not yet had the opportunity to consider the impact of the proposed new fee model on their specific financial circumstances. To inform our thinking, and our feedback to ASX, we completed a brief anonymous survey of our clients. The results of which were:

- 81% of clients did not feel that they have a good understanding of how ASX's proposed new CHESS fee model will impact the fees paid to ASX by their company;
- 17% of clients had modelled their current ASX CHESS bills against ASX's proposed new fee model; and
- Of those that had modelled the proposed change, 1 client believed they would have savings and that those savings would be greater than 10%, while 63% believed that the new model would see them paying higher fees than today.

The quantum of an issuer's annual CHESS activities and fees relate to a range of factors and across issuers, size and circumstances are inherently very different. As such, it is very difficult to draw a comparison between the "proposed subscription fee" and the "replaced fees" to assess whether the new fee structure is fair and equitable, or if there is a shift in revenue streams between other clearing and settlement services[1].

One area of focus for issuers must be Holding Adjustments, however it is difficult to assess the fairness of a greater than 7x increase to $2.50 per Holding Adjustment fee compared to a $0.35 per message fee today. The impact of this will be particularly felt where these transactions may form part of the day-to-day operation of a complex or active register, and potential benefits framed by a tiered model may be unattainable for many issuers who will never make it into the next tier.

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[1] As is required under ASX's 2016 Code of Practice, available here:
https://www2.asx.com.au/content/dam/asx/about/asx-code-of-practice.pdf

We question whether the significant increase in the fee for Holding Adjustments appears to compensate ASX for the discounted fee for Holding Statements that will be sent after many but not all transactions. For events such as a DRP or SPP allocation, both of which will have a high retail participation rate, the application of a Holding Adjustment may be the only trigger for an investor holding statement in the month. ASX's higher Holding Adjustment fee will recover much of the reduced revenue for the generation of that statement.

To illustrate, an equity issuer ABC with 110,000 CHESS holders who enrolled in a Dividend Reinvestment plan would currently pay $38,500 in CHESS fees for the Holdings Adjustments used to allocated securities to the target HINS however under the new fee model, those same Holding Adjustments will cost $56,750. ABC pays dividends twice per year.

In the month of March, Computershare sent nearly 350,000 Holding Adjustments[2] to CHESS and the approximate CHESS message cost across all of our clients at the current rate is $122,000. Leaving the lower volume tiered rates aside, at the new rate of $0.50, the future cost would be nearly $175,000, an increase of 30%. Extrapolate that across a year or include a major event, such as one or many Rights issues, as occurred in 2020, and the increase in issuer costs is significant.

Where the Holding Adjustments are being made to manage an active register, such as for ETFs, the target holdings are custody omnibus accounts and therefore there will be no statement sent[3]. In this case, the higher fee cannot be justified.

To illustrate the ongoing increase in costs of managing an active register, ETF Fund Manager XYZ has 30 active funds, half of which require creations or redemptions every day as part of the maintenance of the fund. In the month of March, instead of those Holding Adjustments costing $120.75, under the new fee schedule they would cost $862.50. This additional cost would occur every month of the year. Additionally, the ETF issuer will incur fees, likely at the lower tiered rate given volumes ($0.50), for Holding Adjustments applied for Distribution Reinvestment Plans. Some of these are applied quarterly.

We have made further comments on the fairness of Holding Adjustment fees later in this submission.

The final major element of change, an area where issuers may elicit some benefit, is in the **dramatically reduced rate for paper-based CHESS holding statements and the future promise of digital holding statements** being an included benefit. ASX's new paper-based fee of $0.50 is at-or-close-to ASX's net cost to deliver paper holding statements due to the postage bundling benefit you achieve. This new rate is in stark contrast to the $1.25 fee which has been charged to issuers for years[4] and reported as a key revenue item in ASX investor updates. Savings from bundling have never been passed on to issuers until now, afters significant pressure was placed on ASX by various market stakeholders. While issuers may see some cost benefits from the reduced statements fee, it is difficult to assess the net impact given the higher costs elsewhere.

Further, the promised inclusion of digital statements in the subscription fee gives issuers the prospect of future fee reductions but it is based on a strategy that will be challenged by external dependencies such as engagement from the broker community on a number of fronts – a strategy which to-date has not delivered.

ASX's approach to digitisation is very different to proposals from other stakeholders which aimed to provide immediate benefit to both issuers and their investors based on data and technology which is already in place and delivering benefits today. ASX rejected this proposal in favour of their own strategy aimed at expanding services to investors, beginning with an investor portal.

[2] Only message type 425 was used in this analysis – the actual figures including 421's are higher

[3] CHESS Holding statements are only sent for Broker Sponsored holders. Direct holdings do not receive CHESS statements

[4] NB: the fee has historically tracked the published Australia Post postage rate

Items excluded in the fee review

A further complexity to assessing the new fee model arises in the areas that have not been reviewed. These include BAU elements such as reporting and ad-hoc events such as the Primary Market Facilitation fee, amongst others.

ASX has not taken on board years of queries from issuers on the fees charged for reporting on issuer's CHESS subregister data. ASX's response has been to refer issuers back to their share registry to question the need for such reports. These reports are not optional and are key to the safe operation of a share register and the execution of a corporate event. In fact, in CHESS Replacement, these reports will become 'unsolicited' meaning that scheduling is not under the issuer or share registry's control.

ASX's current and proposed fee model does not contemplate the needs of issuers who operate **more than one listed class**, and such issuers then immediately extend beyond the "one free reporting request per day" inclusion provided for in the current and proposed fee structure. To complicate matters, it is not clear which security class is included as the "one free" report – anecdotally it does not seem to be the largest class for the issuer, leading to significant additional ASX charges depending on the order of report requests and corporate events underway at the time.

ASX should revise all aspects of their fee structure to ensure that it accurately reflects the type and usage of services. The fee model, as it relates to reporting, should consider issuers who have more than one listed security.

Low engagement with the issuer community

In light of the complexity that we have identified in the ability to do a fair comparison of the existing and proposed fee schedule, it is important that all issuers understand the changes and have had the ability to model likely impacts to them. However, it is evident that ASX has not yet achieved comprehensive engagement across all issuers and across all listing venues.

Our engagement with some of our clients suggested that some issuers have not had the opportunity to consider the impact of the proposed new fee model on their specific financial circumstances, others did not even know about the proposal. Some expressed alarm that the modelling indicated higher fees under the new model.

Amongst issuers there is a degree of resignation that ASX's new fee model is non-negotiable and reflects ASX's sole provider position in the market. They are disinclined to comment.

While there is the additional promise of a "low velocity discount", this will be difficult for issuers to anticipate and cannot be applied until the end of the financial year. It is a possible bonus that cannot be anticipated or budgeted for.

With this in mind, we ask ASX:

- Will you guarantee that, on a like-for-like basis, all issuers will pay less under the new fee model?

- Will you offer issuers the ability to choose between fee models if they cannot be certain that the proposed model will not result in a higher annual cost?

Impact of another CHESS replacement delay and rules consultation

At the time of writing, ASX has informed the market that there will likely be a further delay to the implementation of the CHESS Replacement Project. Will this likely delay have any bearing on your intended commencement date of 1 July 2022 for your proposed fee model?

Will the delay have a flow on impact on the milestones in place to achieve certainty on the proposed rule changes to support the replacement system? This is important as there are aspects of the rules that directly impact costs.

In Computershare's responses to the Tranche 1 Rule Amendment Consultation and the Tranche 3/Combined Rules Package, as well as in various forums, we made comment on the likelihood of additional costs for issuers due to new rule 8.14.2, which requires issuers to remove lapsed renounceable rights holdings from the CHESS subregister. Our feedback has been that, in the past this has not been usually performed due to the higher ASX costs that we are looking to avoid on behalf of our issuer clients. Depending on the size of issuer, this avoided cost could run into tens of thousands of dollars for a single event. The impact of this new rule and the dramatically higher proposed new fee for Holding Adjustments will result in a ‘double whammy’ for issuers once both the new fee structure and rules come into effect.

Given the timing of various corporate events, it is unlikely that the holding increase and lapsed decrease will occur in the same month, thereby missing any chance of the issuer benefiting from higher tiered discounts. We again urge ASX to revise this requirement under the rules and/or consider the fee implications from their introduction.

ASX’s reply thus far has been that it is only Computershare’s clients who will be impacted by the rule change. In our view, this response and approach by ASX is not fair and equitable for more than 50% of companies and holders across the ASX200.

Conclusion

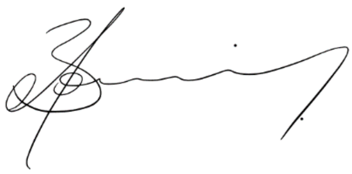
In closing, while appearing simple, ASX’s proposed new fee model for CHESS is difficult to analyse across varying scenarios and vastly differing issuers, however concerningly, on balance, the proposed model appears to arrive at a detrimental position for issuers and market innovators.

In addition, whilst ASX has made a recent effort to engage directly with issuers on the proposed changes, ultimately, insufficient time has been allowed by ASX for proper consideration by issuers of the impact and the associated costs and benefits of the proposed model. 81% of issuers who participated in our survey, did not feel that they have a good understanding of how ASX’s proposed new CHESS fee model will impact the fees paid to ASX by their company.

This is compounded by the sense from some issuers, that there is little point to engaging on the proposed fee changes as they have no power to influence, negotiate or switch service providers under the monopoly model incumbent upon them.

We are left with an open question**; if the cost reductions proposed for issuers centre almost exclusively around the execution of a yet unrealised latent strategy by ASX to digitise CHESS statements through the capture of shareholders’ personal email addresses from retail brokers, while the cost for core settlement functions such as holding adjustments increases by a multiple of seven times, is this really a good deal for the Australian market?**

Yours sincerely,



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