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ASX Limited
20 Bridge Street Sydney NSW 2000
Attention: Keith Purdie

By email: chessreplacement@asx.com.au

Dear Keith,

Proposed changes to netting and settlement workflow

Thank you for the opportunity to provide feedback on the proposed changes to the netting and settlement process, which you have explained are necessary to accommodate the materially greater settlement volumes demanded by the Australian market and its regulators.

We acknowledge the significance of netting as being a central and fundamental element of the clearing and settlement process.

Computershare's position as a respondent to this consultation paper is twofold:

- First, as a Settlement Participant, and as a software vendor to approximately 15 settlement participants and payment providers; and
- Second, as a share registry to over 750 listed companies.

Our priority is to see the preservation of the integrity of the settlement system. We wish to highlight to ASX and other readers of our response, that the outcome of the daily net settlement process is a series of **electronic transfers of legal title** on securityholder registers, not merely a database of transactions. Consequently, ensuring the validity and integrity of security transfers under the rules is a process we take a keen interest in on behalf of our clients and their stakeholders.

While ASX has accepted that the need to make this material change at this late stage in a major project is not ideal, it is important the industry be informed about what is driving the capacity constraints of the new CHES system, where the current capacity of the new system is constrained to, and what the confirmed new capacity would be following these proposed changes to the netting process.

A further requirement must be, that at a minimum, there is no degradation of legal or operational integrity for the market, and that the outcome for the market, be beyond merely an equivalent business outcome.

General Comments

The redesign of the netting and settlement process proposes to eliminate the existing Net Broker Obligation (NBO) where the NBO is a settlement instruction that replaces the gross underlying trades.

We understand that ASX proposes for the gross underlying trades be retained in their original form, as the transaction due to be settled, contained in the administrative netting as part of the settlement batch.

As such, there is no physical 'set-off' of transactions proposed.

We note that the process of 'set-off' currently results in the NBO reflecting a single net obligation to the market, per security and basis of movement.

This raises several questions for us:

1. If there is no 'set-off' of broker/broker obligations (as exists today), will the new netting arrangements provide the same level of protection to the market and financial system in the event of a broker default or insolvency?
2. What will be the effect on transfer processing and legal updates to the securityholder register, and how will the transfer of securities be represented?
3. Will fees payable by issuers increase based on the proposed changes?
4. Will the proposed change to netting will create sufficient capacity in the new CHES system to meet the demand of the market, or are there other process flows that will also need to be redesigned in order to achieve the required capacity?

Furthermore, we have some concerns over the robustness of the process and design of the technical detail based in the information provided to the market to date. Some of these concerns might be allayed over the coming weeks and months once more information is provided to the industry.

Detailed Comments

1. *For impacted participants, what impacts do the proposed changes have on your overall business processes, operations, and systems (e.g. cessation of NBO, introduction of NNDP, and/or the settlement confirmation changes)?*

As a system's provider, our ability to assess the impact of the proposed changes requires the provision of further technical details addressing the proposed message content changes, and message flows, for the period up to and including settlement. The pending proposed changes to the legal framework supporting the settlement process may also impact system changes.

As a Settlement Participant we anticipate minimal impact on our overall business processes and operations. We do, however, require more information on ASX's proposed the rule changes in order to complete our analysis.

2. *For impacted participants and software providers (third party vendors and those developing in-house), can the proposed solution design be enhanced or supplemented to assist with the implications of the proposed changes for existing business processes, operations and systems?*

It is difficult to answer this question without knowing the final technical specifications for the new and amended/enhanced messages and changes to the message flow. In addition, a clear understanding of the changes to the rules framework will be important to this analysis.

In general, the NNDP and Net Settlement Movement should both include a reference to the underlying transactions that they represent. This means that the enhanced Net Settlement Movement (sett_136) message should include all of the elements from existing Settled Settlement Instruction (MT156) and its current ISO equivalent, the Settlement Confirmation (sett_119), that unambiguously link the origin settlement instruction with net settlement movement. It would also be beneficial if a clear indication of Part/Full settlement was achieved with the net movement.

We support the suggestion made in at least 1 focus group that a 'start of settlement' notification be sent by ASX as an improvement to the existing and proposed message flow.

3. *For impacted participants and software providers, what impacts do the proposed changes have on your organisation's technical readiness activities for accreditation commencing from late April 2022 and/or operational readiness activities commencing from September 2022?*

We consider that the final technical specifications for the new and amended messages, changes to the message flow, and supporting proposed rule changes, are required to estimate the additional effort required to redevelop messaging and dependent participant features.

We note that while the extended systems development timeline may provide sufficient time for vendors, industry readiness will ultimately depend on ASX's ability to implement to both CDE and ITE, and adequately test these changes, in timely manner.

The development of comprehensive participant procedures that reflect changes in message flows and the associated rule framework will also be a prerequisite for accreditation activities.

4. *For AMOs, do you see benefit in allowing for trade cancellation after trade date for trades executed on your market*

N/A

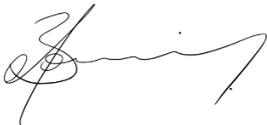
Conclusion

Confidence in the integrity and stability of the settlement platform and processes are fundamental to the basic functioning of our market.

This is underpinned, in part, by certainty of the capacity, and knowledge of any limitations to the technology. This element is particularly relevant as ASX has chosen to use a technology that is untested and untried in an FMI project of this scale, complexity and significance.

A late change of this size and impact, must raise serious questions around what is the right outcome for the Australian equity market today, and for the next 25 years. It is not enough to simply limp over the line in April 2023.

Yours sincerely,



Ann Bowering

CEO Issuer Services, Australia and New Zealand