



12 October 2023

Secretariat
Parliamentary Joint Committee on Corporations and Financial Services
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ASX SUBMISSION TO PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES – INQUIRY INTO OVERSIGHT OF ASIC, THE TAKEOVERS PANEL AND THE CORPORATIONS LEGISLATION

ASX Limited (**ASX**) welcomes the opportunity to make a submission to the Parliamentary Joint Committee (the **Committee**) on Corporations and Financial Services' inquiry into the oversight of ASIC, the Takeovers Panel and the Corporations Legislation. ASX notes that the Committee is currently considering matters relating to ASX's CHES Replacement project, including the relevant regulatory oversight arrangements.

ASX acknowledges the oversight role the Committee plays for Australia's financial system and in ensuring community expectations are upheld. ASX takes its regulatory obligations seriously, and is fully committed to assisting the Committee in its inquiry.

Following ASX's announcement to pause the CHES Replacement project in late 2022, ASX continues to work constructively with its regulators to ensure it meets expectations, and with a variety of industry participants and stakeholders as it progresses toward a new solution design for the CHES replacement program.

To assist the Committee, this submission will cover updates on key activities since ASX last appeared in June. These include

- publication of an intra-group conflict management report by an external expert, as foreshadowed in ASX's last appearance before the Committee;
- publication of a special report on ASX's progress on recommendations from an external review on CHES replacement;
- the establishment of a new stakeholder advisory group on cash equities clearing and settlement following a request from ASIC and the appointment of an independent Chair to the group;
- the appointment of an independent Chair to the ASX Business Committee;
- progress on the CHES replacement project;
- ASX's response to the 2023 Financial Stability Standards assessment by the RBA; and
- continued renewal across senior management and board.

For convenience, a summary table of the reports currently being prepared or recently delivered, as required by various regulatory obligations on ASX, is at **Attachment A**.

Intra-group conflict management report by external expert

On 28 June 2023 ASX released an expert report prepared by law firm Herbert Smith Freehills (HSF) on ASX's arrangements to identify and manage conflicts between the commercial interests of ASX Group and the general licence obligations of ASX Clear and ASX Settlement. The report, which focused on the governance of current CHES and CHES replacement, made a positive assessment on the overall status of ASX's intra-group conflict management arrangements, and also provided recommendations for further enhancements.

ASX has introduced a number of improvements to its governance framework in the last two years, including in response to recommendations from the Reserve Bank's 2021 Financial Stability Standards assessment. Having regard to these

recent changes, the HSF review found that “the existing framework for conflict identification and management within ASX Group is sophisticated and consistent with the framework we would expect from a listed group of the complexity and scope of potential conflicting operations of the ASX Group.”

A copy of the external report by HSF can be accessed from the link in the **Appendix at Item 1**.

Special report on external review of CHES Replacement

In August 2022 ASX commissioned a review by Accenture (“external review”) to assess the remaining work required to complete the delivery of the CHES replacement application following a series of escalating delays. This external review was completed in November 2022 and was a significant input into ASX’s decision to pause the CHES replacement project so that it could reassess the solution design. The external review made a series of recommendations, all of which ASX committed to implementing at the time.

On 22 February 2023 ASX confirmed it had received a request from ASIC to provide a special report on its action plan to address the recommendations in the external review report. This report was provided to ASIC on 30 June 2023 and independently audited by EY. The special report provided a detailed view of ASX’s progress against the 45 recommendations – many of which it is implementing on an enterprise wide basis - and confirmed it expects to complete the program of work by June 2024.

A copy of the special report can be accessed from the link in the **Appendix at Item 2**.

Establishment of new Cash Equities Clearing and Settlement Advisory Group and appointment of independent Chair

In accordance with regulatory expectations, ASX recently established a new advisory group to advise ASX Clear and ASX Settlement on strategic cash equities clearing and settlement matters. Two industry roundtables were hosted by ASIC on 14 July 2023 and 2 August 2023 to help develop the charter for the group, which would have CHES replacement as its initial focus.

The new Cash Equities Clearing and Settlement Advisory Group (“Advisory Group”) is made up of a small number of experienced industry leaders drawing on their backgrounds across a broad range of users of clearing and settlement services and other relevant program and governance expertise.

On 2 August 2023, ASX Clear and ASX Settlement appointed independent Chair Mr Alan Cameron AO to the Advisory Group. The Advisory Group has now met twice and plans to meet between two and three more times before the end of 2023 to provide stakeholder input into key upcoming milestones for the CHES replacement project.

Appointment of independent Chair to ASX Business Committee

On 26 September 2023, ASX announced the appointment of Mr Paul Rayson as its first independent Chair to the ASX Business Committee, further enhancing the effectiveness of its stakeholder engagement. Mr Rayson acted as Chair at the most recent Business Committee meeting on 11 October 2023.

The ASX Business Committee was established by ASX for the purpose of providing user input to management and the boards of ASX Clear and ASX Settlement on the ongoing operation and development of cash equities clearing and settlement infrastructure and services. It currently comprises of representatives of clearing participants, settlement participants, approved market operators, other relevant stakeholders and their associated industry organisations.

The ASX Business Committee has also established a sub-committee, the CHES Replacement Technical Committee (“Technical Committee”). The Technical Committee is separately chaired and provides a forum for industry engagement on technical aspects of CHES replacement project planning and solution design.

The ASX Business Committee and the Technical Committee operate alongside the new Advisory Group.

Progress on CHES Replacement Project

ASX continues to work towards announcing a high level solution design for CHES replacement within the final quarter of calendar 2023, subject to input from the Advisory Group as discussed below. The team are well progressed and have been assessing four solution archetypes that were previously described to the market by ASX’s Chief Information Officer at the Investor Day on 6 June 2023 (the relevant slide is included at **Item 5 in the Appendix**). These solution

types are being assessed against a set of project principles and corresponding outcomes. These include ensuring the replacement system:

- **addresses our licence obligations** and meets the needs of the market today and into the future;
- **provides a supportable solution** that is reliable and can operate at the high standard required to underpin the Australian financial market;
- **is backed by a robust plan** that gives stakeholders confidence in a safe, reliable and efficient transition to the new platform;
- **addresses industry impacts** by continuing to engage stakeholders and by considering key requirements such as the desire to leverage previous investment where possible; and
- **can deliver future innovation**, creating opportunities for industry efficiencies and growth including support for new asset classes and capabilities such as tokenisation. The solution proposes to take a modular approach with separate components for clearing, settlement and sub-register services to support flexibility and interoperability. This will allow for the provisioning of services by either ASX or other providers as driven by market demand.

A key priority for ASX at this time is ensuring it is satisfying the requirement from both ASIC and RBA, set out in a letter of expectations issued on 29 August 2023. The letter requires ASX to seek input from the Advisory Group on key strategic cash equities clearing and settlement matters, particularly in respect of the CHES replacement project. The expectation from ASX's regulatory agencies makes it clear that it should not make a final decision until the Advisory Group has had a reasonable opportunity to consider the key strategic issues and provide any recommendations, and for ASX Clear and ASX Settlement to have considered and responded to those recommendations. A copy of the letter from ASIC and the RBA is accessible from the **Appendix at Item 3**.

RBA 2023 assessment of ASX clearing and settlement facilities

On 9 October 2023 the RBA released its Financial Stability Standards (FSS) assessment of ASX's clearing and settlement (CS) facilities. The assessment is conducted annually and provides ratings of ASX's CS facilities. This year ASX was rated as *observed or broadly observed* for many of the FSS and three standards were rated as *partly observed*. This year's assessment covers the period from 1 July 2022 to 30 June 2023 which includes ASX's decision last November to reassess the CHES replacement project and revisit the solution design.

ASX has accepted all the recommendations and is well progressed on several of them. Of the 13 recommendations that represent new actions, several have work underway or are in planning.

A copy of ASX's public statement in response to the release of the FSS can be accessed from the link in the **Appendix at Item 4**.

Changes to Board and Senior Management

As outlined in ASX's last appearance before the Committee on 8 June 2023, renewal at board and management level continues. Two new non-executive directors (NEDs) have commenced since February, resulting in a 50% representation of NEDs on the Board who have commenced in the past two years.

As part of the ongoing board renewal program ASX Chair Mr Damian Roche has also outlined succession plans. Mr Roche has indicated that should he be re-elected at the forthcoming ASX annual general meeting on 19 October, he will serve his last term and begin the process of ensuring a smooth and successful transition to a new Chair.

Significant senior management and executive team management changes have also taken place since early June 2023. New appointments include:

- Chief Information Officer (commenced on 1 July)
- GM Internal Audit (commenced on 24 July)
- Chief Operating Officer (commenced on 7 August)
- Group Executive Securities & Payments (commenced on 14 August)
- Chief People Officer (to commence on 13 November)

Key upcoming events

- Publication of the third special report requested by ASIC is expected in November. The special report into ASX's Portfolio, Program and Project Management frameworks was submitted to ASIC on 30 September and an audit of that report by EY is currently being prepared and will also be submitted to ASIC at the end of October.

Should the Committee have any questions about the information in this submission or if we can be of any further assistance, please contact _____, General Manager Corporate Affairs, at _____.

Yours sincerely

Helen Lofthouse

Managing Director and Chief Executive Officer

Appendix

Number	Description	Source materials
Item 1	Intra-group conflict management report	<ul style="list-style-type: none"> Special report prepared by Herbert Smith Freehills
Item 2	Special report on external review of CHES Replacement	<ul style="list-style-type: none"> Special report prepared by ASX Audit report prepared by EY
Item 3	Regulatory letter of expectations regarding Advisory Group	<ul style="list-style-type: none"> Joint letter of expectations from RBA and ASIC ASX media release: ASX to host first stakeholder Advisory Group meeting for CHES replacement
Item 4	RBA's 2023 Financial Stability Standards assessment	<ul style="list-style-type: none"> RBA 2023 FSS assessment ASX media release: ASX will implement all recommendations from the RBA's 2023 Financial Stability Standards assessment
Item 5	ASX Investor Day presentation, 6 June 2023	Extract from Market Announcement materials, CIO presentation

CHESS REPLACEMENT SOLUTION DESIGN UPDATE CONSIDERING OPTIONS IN FOUR AREAS



Attachment A - Summary of reports currently underway/delivered

Report	Obligation imposed	Imposed by	Independent review	Due
Current CHES Special Report <i>Consider the ongoing operation, security, continuity and governance arrangements for the existing CHES infrastructure</i>	14 December 2022	ASIC Notices	EY (audit)	Delivered Published 4 June 2023
Governance and conflicts review <i>Identify any conflicts between the commercial interests of ASX Group Ltd and the financial stability obligations of ASX Clear and ASX Settlement with respect to both the governance of the current CHES and the CHES replacement, and document a robust framework for managing these conflicts</i>	15 December 2022	RBA Letter of Expectations	Herbert Smith Freehills (expert)	Delivered Published 28 July 2023
Response to Accenture report recommendations special report <i>Detail implementation plans for addressing recommendations of the Accenture report and specify the date by which remedial actions will be taken</i>	21 February 2023	ASIC Notices	EY (audit)	Delivered Published 17 August 2023
Project, Program, Portfolio Management (PPPM) Special Report <i>Detail ASX's current PPPM frameworks and an assessment of those frameworks against internationally recognised frameworks, either validating that they are fit-for-purpose for critical financial market infrastructure and/or identifying deficiencies and measures to address</i>	21 February 2023	ASIC Notices	EY (audit)	Report delivered Audit due 31 October 2023