



RESERVE BANK OF AUSTRALIA



**ASIC**  
Australian Securities &  
Investments Commission

17 November 2022

The Directors  
ASX Limited, ASX Clear Pty Limited  
and ASX Settlement Pty Limited  
20 Bridge Street,  
SYDNEY NSW 2000

Dear Directors

#### **EXPECTATIONS FOR CURRENT CHESS and CHESS REPLACEMENT**

1. ASIC and the RBA (**the Regulators**) refer to today's announcement by ASX Limited in relation to the Clearing House Electronic Sub-register System (**CHESS**) and the CHESS Replacement Program.
2. We also acknowledge the publication of the Independent Report (the **Report**) today and note its findings in relation to the core technical issues and the current delivery model for the CHESS Replacement. It is critical that ASX significantly uplift its capabilities to address the gaps and deficiencies identified by the Report in analysis and design, program delivery capabilities, including but not limited to execution rigour, program and project management, vendor management, testing, and risk management. The Regulators expect ASX to comprehensively address the areas for uplift during this next period of solution re-design and re-planning to ensure ASX have built the required capabilities before progressing the CHESS Replacement Program.
3. We acknowledge that ASX has recognised that pausing the program while it revisits the technology design for the CHESS replacement was a necessary decision. However, the successful replacement of CHESS is critical to the effective functioning and stability of the Australian financial system, as is the reliable support and maintenance of the current CHESS until its replacement can safely go live. It is incumbent on ASX to ensure that the current CHESS, and ultimately its replacement, meet resilience, reliability, integrity, and security requirements.
4. In light of the announcement, the Regulators intend to consider and use further regulatory measures to ensure that ASX meets our expectations that ASX continues

to support and maintain the current CHES, as well as developing a robust response plan to the findings and key recommendations of the Report.

### **CHES Replacement delay**

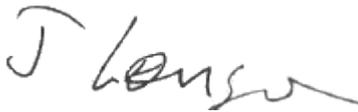
5. On 1 October 2020, the Regulators made public our expectations of ASX that it replaces CHES in a safe and timely manner, and provides independent assurances to the Regulators before migrating to the new system. These expectations remain and must be met by ASX.
6. On 24 November 2021, ASIC imposed additional licence conditions on ASX Limited, ASX Clear Pty Ltd (**ASX Clear**) and ASX Settlement Pty Ltd (**ASX Settlement**), with specific emphasis on mitigating risks associated with relevant technology projects including the CHES Replacement program, which was then due to go-live in April 2023. These conditions currently remain in force.
7. On 3 August 2022, ASIC and the RBA acknowledged the announcement by ASX of a further delay in the CHES Replacement program and the appointment of Accenture to provide an independent review of the core technical issues and program delivery model, which was expected to assist ASX to confidently determine a new go-live date.
8. Today's announcement by the ASX and the details of the Report have highlighted a number of areas of concern with the CHES Replacement program. In addition to the gaps and deficiencies identified in the Report, CHES Replacement has already imposed significant costs on industry, which have not been borne by all CHES users equitably. It is important that ASX considers the impact on all CHES stakeholders in its assessment of potential solutions. We recognise ASX's decision to write-down the capitalised value of the CHES Replacement software. However, ASIC will continue to monitor how the cost of the program is accounted for and the impacts on industry.
9. ASX has a large amount of work to complete before it can provide any certainty on the final technical solution of the CHES Replacement and its go-live date. This will require ongoing maintenance and investment in the current CHES, as critical national financial market infrastructure, to ensure it continues to reliably service the cash equities market until its replacement goes live.

### **Regulators' expectations**

10. ASX Clear and ASX Settlement are obliged under the *Corporations Act 2001* (the **Act**), to adhere to their core obligations as CS facility licensees, including:
  - 10.1. to the extent that it is practicable to do so, do all things necessary to reduce systemic risk and ensure that the facilities' services are provided in a fair and effective way;
  - 10.2. comply with the conditions on their licences; and
  - 10.3. have sufficient resources (including financial, technological and human resources) to operate the facilities properly.
11. In adhering to these obligations, the Regulators expect that ASX Clear and ASX Settlement will ensure that:
  - 11.1. each has the capabilities and resources required to effectively support the current CHES such that it meets all regulatory requirements and continues to reliably service the market until go-live of the CHES Replacement;

- 11.2. the CHES Replacement will go-live before the current CHES ceases to meet ASX's functional and non-functional requirements, including ASX's obligations in this respect under the Act.
12. ASX must ensure ASX Clear and ASX Settlement maintain the provision of their services in a fair and effective way during the transition from the current CHES to the CHES Replacement. ASIC will use all available regulatory measures to ensure compliance with these expectations.
13. The RBA further expects that ASX will continue to observe the Financial Stability Standards, particularly in respect to ensuring the stability and resilience of the current CHES, including appropriate business continuity arrangements.
14. Finally, the Regulators expect ASX to effectively manage the risks involved with a program of such size and complexity, including system build, development, supportability, testing, participant readiness, pricing, data access and governance frameworks.

Yours sincerely



**JOSEPH LONGO**  
CHAIR  
AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION



**PHILIP LOWE**  
GOVERNOR  
RESERVE BANK OF AUSTRALIA