



Philip Lowe  
GOVERNOR

15 December 2022

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

Dear Directors

### **RBA EXPECTATIONS FOR THE CURRENT CHESSESS AND CHESSESS REPLACEMENT**

1. This letter outlines expectations with respect to the current CHESSESS and its replacement in addition to those included in the letter to Directors issued on 17 November 2022.

#### **The Current CHESSESS**

2. ASX is to make a public undertaking that they have the resources and capabilities to support the ongoing operation, maintenance and investment in the current CHESSESS to ensure it continues to service Australia's cash equities markets reliably until after its replacement goes live. This includes, but is not limited to, ensuring ASX has sufficient resources with experience in the programming language used in the current CHESSESS.
3. ASX will continue to observe the Financial Stability Standards (FSS) in respect to ensuring the stability and resilience of the current CHESSESS, including appropriate business continuity and security arrangements.
4. ASX is to identify any upgrades that are required for CHESSESS to comply with the FSS and communicate its plans to consult stakeholders and implement these changes in a safe and timely way.
5. ASX is to consult stakeholders in relation to any material changes to current CHESSESS and publish key details and timelines for all upgrades to CHESSESS.
6. ASX had decided to delay implementation of certain features to comply with the FSS and incorporate them in the CHESSESS replacement (e.g. implementation of ISO 20022 and increasing trading capacity beyond 10 million trades per day). Given the significant delay in the replacement system going live, the Bank expects ASX to explain its plans for these features to the regulators and stakeholders and justify reasons for these intentions.
7. In the 2021/22 Assessment, the Bank made a number of recommendations in relation to CHESSESS replacement that are relevant for current CHESSESS. ASX is to implement the following recommendations:
  - a. By June 2023: Explore the feasibility of implementing intraday margining of cash market positions in current CHESSESS.

- b. By June 2023: Conduct an assessment of whether the protections from arrangements utilising a commingled house/client account structure remain materially equivalent to those provided by omnibus or individual client segregation and the feasibility of supporting this feature in current CHES.
- c. By December 2023: ASX should provide the Bank with a plan for implementing omnibus or individual client segregation, or a satisfactory explanation of how any alternative arrangements satisfy the requirements of the FSS, after consulting with industry stakeholders.
- d. By June 2023: ASX should complete its analysis of the legal certainty of powers used to support deferral of the movement of cash securities if this cannot be achieved on the same day as the transfer of cash.

### **CHES Replacement**

- 8. By 30 June 2023, ASX is to publically respond to the 45 recommendations in the Accenture report and include a plan with timelines to address these recommendations. It is critical that ASX significantly uplifts its capabilities to address the gaps and deficiencies identified by the Accenture 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.
- 9. ASX is to assess and disclose the risks and benefits of various transition options to the regulators and stakeholders and consider these options during the solution redesign phase. ASX should choose a transition option that appropriately manages the transition risks.
- 10. ASX is to clearly communicate to regulators what their back-up plan will be in the event that the replacement system is not delivered before supportability of the current CHES is severely compromised. The risks around the back-up plan should be appropriately identified, assessed and monitored, with appropriate controls put in place to mitigate these risks. This communication to the regulators on the back-up plan should be at the same time as communication on the solution selection decision. ASX is to also clearly communicate to stakeholders what their back-up plan will be if the selected CHES replacement solution is unable to be implemented. This communication to stakeholders should be well in advance of the current CHES being severely compromised to ensure stakeholders have sufficient and appropriate notice to test and implement the back-up plan in a safe manner.
- 11. ASX is to provide the regulators with full and unfettered access to their new delivery partners for the CHES replacement project and contractually require their delivery partners to cooperate with the regulators.
- 12. ASX is to actively consult stakeholders on the solution redesign, project and implementation timeline for the CHES replacement.
- 13. ASX is to publish on its website its project and implementation timeline with dates for key milestones. This plan should have a new and credible go-live date for CHES replacement.

### **Governance**

- 14. ASX is to publish its governance arrangements, including oversight from its Boards, management structure and role of relevant Board committees (particularly its Technology and Audit and Risk Committees), and the roles of its risk management and audit functions in relation to current CHES and its replacement project. Governance arrangements should also include clear responsibilities and accountabilities with respect to the delivery of the plans discussed above.
- 15. ASX is to seek external expert advice to identify the 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. ASX is to put in place and document a robust framework for managing these conflicts and assurances regarding how the framework is being implemented and observed.

#### **Regulatory Engagement**

16. The ASX is to engage actively with the regulators on material issues in relation to maintenance and support of the current CHES and developments in relation to CHES replacement. This must include timely updates on the work undertaken, timing of investment projects, new and emerging risks and any material change in the risk profiles for current CHES and the CHES replacement project. The information must be complete, and delivered in a timely, clear and transparent way.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Daryl Lowe". The signature is fluid and cursive, written in a professional style.