

22 June 2018

Office of General Counsel
ASX Limited
20 Bridge Street
Sydney NSW 2000

Attention: Cliff Richards

By email: regulatorypolicy@asx.com.au

Dear Cliff

CHI-X AUSTRALIA SUBMISSION ON THE ASX CP – CHESSE REPLACEMENT: NEW SCOPE AND IMPLEMENTATION PLAN

Chi-X is grateful for the opportunity of providing a submission on the ASX Consultation Paper, CHESSE Replacement: New Scope and Implementation Plan (the CP).

The ASX is to be commended for seeking to introduce ground breaking innovation in post trade clearing and settlement services. The proposals are exciting and have significant potential benefits for all stakeholders in Australia's financial markets.

Attachment one to this letter contains:

Part 1: Chi-X answers to the consultation questions on page 3 of the CP; and

Part 2: Further Chi-X feedback on the consultation process and proposals.

We hope this submission is of assistance, given the importance of your work in this area.

We do comment on the application of the regulatory expectations of the Council of Financial Regulators (CoFR) to some of the proposals and the CP commentary and so will copy our submission to its members.

Please do not hesitate to contact us if you have any queries.

Yours sincerely



Chi-X Australia Pty Ltd

PART 1 – ANSWERS TO CONSULTATION QUESTIONS

Q1: Are there any important new business requirements that are not captured in Chapter 2 (or otherwise in Appendices 1 or 2) that should be included? If so, your feedback must provide a detailed description of the business requirement and outcome sought, process flow(s) to support the requirement, a supporting rationale, any relevant stakeholder input and regulatory considerations.

Chi-X supports the business requirement outlined in section 5.9.1 that all AMOs have access to the same base clearing and settlement services and that the new system have the capacity to accept, register and novate transactions effected through AMOs for clearing and settlement. Chi-X also supports the statement in section 5.9.2 that the design of the new system facilitate access by other clearing and settlement facilities on non-discriminatory terms.

Chi-X is not in a position to provide further business requirements at this stage as it is unaware of:

- (a) the complete project scope and services; and
- (b) the delivery framework and processes.

Providing business requirements in this environment may risk some requirements (eg bespoke requirements for products exclusively traded on Chi-X) being given priority over and/or interfering with other fundamental requirements (eg that the same base clearing and settlement process be provided to ASX AMOs and non-ASX AMOs).

The comments in Part 2 section 1 are also relevant in this area.

Q2: Do you have specific feedback on the proposed testing and release management strategy (Chapter 7) and the proposed migration and implementation approach (Chapter 8)?

Chi-X agrees with the ASX that it is important for multi market testing to be integrated into the mainstream release management strategy on an end to end basis. For example the AMO test beds referenced in section 4.7 should include ASX and non ASX AMOs.

Chi-X looks forward to engaging with ASX on this process.

Q3: Is there particular information that you will need to assist you with your transition planning?

Chi-X has commenced engagement with ASX on the timing for Chi-X involvement in the testing programme and looks forward to continuing to engage with ASX on this topic and obtaining the information necessary for an effective transition to occur.

PART 2: FURTHER CHI-X FEEDBACK

CXA Committed to Working with ASX to Deliver Enhanced Outcomes

Chi-X is very supportive of using innovative technology to enhance Australia's market infrastructure and is excited by the possible improvements in Australia's financial markets as a result of these innovations. Chi-X is committed to working with ASX to assist ASX service providers deliver a truly effective and global benchmark service.

Further Information that Would Assist in Delivering AMO Business Requirements

In August 2017, non-ASX market operators asked ASX to provide the following information:

- (a) the services currently provided to AMOs by ASX Clear and ASX Settlement, on the one hand, and other ASX businesses on the other;
- (b) what, if any, of the services provided by ASX Clear and ASX Settlement are provided outside of the licences held by ASX Clear and ASX Settlement; and
- (c) the future services that will be covered by the CHES replacement project.

ASX helpfully provided a response to the request in (i) on 13 June 2018 by listing services and the providing ASX entities, in a table provided in hard copy at a meeting that date. The information requested in (b) and (c) above remains critical to delivering AMO business requirements to ASX and Chi-X would be grateful for this information.

Chi-X would also be grateful if the ASX could provide further details on the architecture pursuant to which these ASX services may be provided in the new system. For example, slide 9 of the PowerPoint pack provided to market operators on 22 May 2017 helpfully outlined the technology architecture and data flows for Chi-X data into the ASX Clear and ASX Settlement systems. Chi-X would be grateful if a similar updated slide could be provided for the new system.

The Consultation Process

ASX is to be commended for the close engagement it has undertaken with Chi-X participants to develop business requirements for those entities in respect of clearing and settlement services.

ASX has not, however, fully engaged with Chi-X and other non-ASX market operators and so this consultation process has just commenced (see the reference to the 13 June 2018 meeting above).

Chi-X therefore looks forward to engaging more fully with ASX on the matters raised by the consultation process in keeping with the regulatory expectations outlined in the policy statement of the Council of Financial Regulators on the clearing and settlement of cash equity services.

Extension of ASX Services Creates Particular Challenges for ASX, Regulators and ASX Competitors

The proposals contained in the CP extend beyond the current monopoly business undertaken by ASX Clear and ASX Settlement.

In circumstances where the technology systems of ASX are extremely integrated, this may raise issues as to whether all ASX businesses, including those subject to competition (eg market data), are receiving a competitive advantage by virtue of being located within those extremely integrated systems.

It is difficult to comment on the extent of the issues in this area as there is little or no transparency on the way the ASX systems will operate and/or be integrated, including the extent of Chinese walls and the access provided for market operators.

However, it is clear that there are special and significant challenges for ASX, ASX competitors and regulatory authorities as a result of ASX systems being structured in this way and used in the ways outlined in the CP. For example, the use of extremely integrated systems at ASX to provide clearing, settlement, market data and other services may provide a competitive advantage to those ASX products.

Market operators and firms also have to connect to ASX using the ASX proprietary systems and reference data and so minimal system adaption may be required to use ASX as a data vendor: ASX's competitors may therefore be disadvantaged by the relatively significant system adaption required to use their services.

Chi-X is committed to working with ASX to deliver effective outcomes in this area that will enhance Australia's markets and serve the interests of all stakeholders.

A Review Framework Within ASX

Competition between CXA and ASX has delivered many benefits for all stakeholders in Australia's markets. Not surprisingly it has also led, on occasions, to competitive tensions between ASX and CXA.

As ASX decisions relating to the new system will cover a broad range of services and could have a significantly negative impact on the Chi-X business, Chi-X encourages ASX to develop mechanisms for an independent review process for decisions within the ASX that impact on Chi-X and other businesses that compete with ASX.

Data Usage

The proposals outlined in the CP include many exciting uses of data provided to ASX Clear and ASX Settlement by market operators.

Chi-X encourages ASX to consider and propose a governance framework for the possible uses of this data that acknowledges:

- (a) the uses extend to the possible interaction between two key stakeholders in the markets operated by Chi-X and other ASX competitors: participants and issuers (see, for example, section 2.2.23);
- (b) there are regulatory restrictions upon the use of client data provided by participants to market operators and which is in turn provided by CXA to ASX Clear and ASX settlement;
- (c) the need for a governance framework around data use by participants with respect to their clients; and
- (d) the need for a data governance framework around the use by ASX of data provided to it by AMOs.

Interoperability

Chi-X notes the comments in section 5.9.2 that it is not possible to define the specific requirements that will support interoperability. However, Chi-X also notes the following regulatory expectations in the policy statement of the Council of Financial Regulators on cash equity clearing and settlement services:

- (a) ASX should make an explicit commitment to ensuring that any investments in the systems and technology that support its cash equity CS services do not raise barriers to access from unaffiliated market operators or CS facilities;
- (b) Announcements of any material investments in the systems and technology that support ASX's cash equity CS services should be accompanied by a public attestation that those investments will be designed in a way that does not raise such barriers.

Chi-X is therefore of the view that ASX should not wait for a specific request for access to address these expectations: it is possible and desirable, in the absence of such a request, to design the new system in a way that will facilitate interoperability and not raise barriers to access from unaffiliated CS facilities.

Chi-X is also of the view that it is important for ASX to undertake a transparent process when designing the system to address these requirements.