



CHES Replacement

November 2022

Contact	Senior Executive Leader	Executive Director
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Key Messages

ASIC and the RBA, with the Council of Financial Regulations (CFR) and ACCC, continue to closely monitor and engage with ASX on the CHES replacement program.

The clearing and settlement (CS) facility services ASX provides are critical to the Australian financial system. A stable and reliable CHES replacement is important to maintain investor confidence in Australian financial markets and the stability of the financial system.

The CHES replacement is not expected to go-live before late 2024. This is because further system development by ASX's vendor Digital Asset, is needed to meet ASX's scalability and resilience requirements. The further delay is very disappointing. However, we and the RBA expect ASX to replace CHES as soon as can be safely achieved by ASX and users of CHES.

ASX has appointed Accenture to provide an independent review of the new CHES application software. We welcome the appointment of Accenture.

It is critical that ASX and the market have a high degree of confidence and certainty in a new go-live date. The Accenture review is important to achieving this confidence and certainty. The review is on track and ASX has committed to releasing Accenture's final report in late November.

In November 2021 additional licence conditions were imposed on ASX Clear and ASX Settlement. The licence conditions provide an additional layer of assurance on the CHES replacement program with the appointment of an independent expert as approved by ASIC.

The initial report of the independent expert, Ernst & Young, in February 2022 found ASX's CHES replacement assurance program to be fit for purpose. Accenture's report will be provided to Ernst & Young for its ongoing review of ASX's assurance program.

The independent expert will continue to report to ASIC every 6 months up until 12 months after the revised go live date on ASX's assurance program and whether identified remedial actions, including those from the IBM review relevant to the CHES replacement have been implemented appropriately. ASX publishes the Independent Expert's reports, in line with our regulatory expectations

Background

ASX is replacing its aging clearing and settlement system (CHES) with a system based on distributed ledger technology. ASX 2022 Annual Report's detailed that as of 30 June 2022 the total CHES replacement project costs capitalised to date was \$216.3 million.

ASIC has powers to ensure ASX complies with its statutory and licence obligations as it replaces CHES. However, ASIC and the ACCC do not yet have powers to enforce the CFR's Regulatory Expectations for Conduct in Operating Cash Equity Clearing and Settlement Services in Australia (Regulatory Expectations), which govern ASX's pricing, access, and governance arrangements as the sole provider of cash equity clearing and settlement services.



CHESS replacement program update

On 3 August 2022, ASX announced it does not expect the replacement system to go-live until late 2024. ASX attributed the delay to its key technology vendor, Digital Asset (DA), requiring more time than previously anticipated to meet ASX's scalability and resiliency requirements for the new CHESS software application. ASX has engaged Accenture to provide an independent review of the application. While ASIC and the RBA have expressed disappointment in the delay, the regulators welcome the independent review. This will bring external expertise to assess the outstanding work required to complete the delivery of DA's application (including the known outstanding technical requirements) and identify the necessary actions for ASX to confidently define a revised delivery schedule and go-live date. ASX has publicly committed to releasing the findings of the Accenture review. Once ASX receives Accenture's final report, ASX will undertake internal assessment and governance processes before publishing it. ASX will also provide the report to EY in its capacity as independent expert under the November 2021 additional licence conditions.

Industry Readiness

Industry has mobilised significant resources to date for the CHESS replacement. ASX acknowledges the impact the delay will have on industry's preparation and readiness activities. Confidence and certainty of a revised timeline will enable industry to effectively manage and invest in the resources required to ensure a successful and safe launch of the CHESS replacement. ASX has announced that it will engage with stakeholders on Accenture's findings following the release of Accenture's report. ASX will also formally consult with stakeholders on the replanning process.

CHESS users and their vendors must formally attest their readiness to ASX before go-live. Vendors commenced testing at end of November 2021. Initial vendor accreditation is scheduled to be completed by the end of 2022. CHESS user testing will commence no later than 12 months prior to a new go-live date. The new go-live date is not expected to be before late 2024.

Imposition of licence conditions

ASIC has intensified its supervision of the replacement program. The licence conditions give effect to this. They require ASX to appoint an independent expert to assess ASX's assurance program and oversee the implementation of any relevant remedial actions from the IBM review to the CHESS replacement program. ASX must also provide board and senior executive attestations to ASIC, including on the operational readiness of the new system, prior to go-live. Prior to go-live, the independent expert must also provide to ASIC a report on the totality of the findings of the assurance reviews including whether remedial actions have been appropriately implemented.

Political, stakeholder, media interest

CHESS replacement continues to receive significant political, industry and media interest. ASIC's investigation of the ASX trade outage, licence conditions, the RBA's recent assessment of the ASX CS facilities and the recent ASX24 outage, continue to attract public attention to ASX's implementation of the replacement system.

ASIC Action

ASIC, with the CFR and the ACCC continues to closely monitor ASX's governance of the CHESS replacement program. We are engaging with ASX, Ernst & Young as the independent expert, and Accenture to ensure ASX's assurance program demonstrates the readiness of ASX, industry and the new system to go-live. We will continue to engage both bilaterally and with the CFR with key stakeholders during the remaining key program phases.