



16 January 2020

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

By email: regulatorypolicy@asx.com.au

Dear Sir / Madam,

ASX Consultation Paper – *CHESS Replacement Tranche 1 Rule Amendments*

**HSBC Bank Australia Limited
HSBC Custody Nominees (Australia) Limited (collectively HSBC)**

HSBC welcomes the opportunity to make a submission to the ASX's Consultation Paper – *CHESS Replacement Tranche 1 Rule Amendments*.

We have undertaken a review of the Consultation Paper and write to provide our feedback. Please note that we have not addressed every consultation question and submit our feedback in regard to specific areas of interest to HSBC. We have provided feedback to the questions listed under Attachment A of the Paper using the ASX's numbering format.

6. ASX Settlement is required to administer the CHESS Subregister as agent of an Issuer. The information that ASX Settlement must record and maintain on that register is set out in the ASXSORs (see part 8.6).

HSBC recommends the ASX consider expanding the scope of this Rule change to include the bank account details and Tax File Number (TFN) of the registered shareholder. We believe this inclusion will provide for downstream processing efficiencies for multiple industry participants. By way of example for a takeover event this would provide the target company and their registrar with direct credit details to enable electronic processing of the takeover proceeds. In today's environment the use of cheques for takeover proceeds, which can total billions of dollars across the industry, is antiquated and poses an unnecessary level of risk that should be eliminated. This objective could also be achieved by maintaining the registered owner's full data details (including bank accounts, TFNs etc) on the ledger itself and providing access to authorised market participants.

22. (Giving notice) Under the existing ASXSORs, certain communications relating to sub-register state changes and the cessation of quotation of financial products subject to a Subposition are to be given by ASX Settlement by way of a "Notice"2, which contemplates the provision of a written document. The new system will provide for the relevant notifications to be provided via system generated messages.

HSBC supports this proposed rule change and we would suggest the ASX provides further guidance in regard to the timing and communication method of the notifications. We note the

rule uses the phrase 'consider reasonably necessary' and we recommend further definition is provided on this point.

27. (Automated security closure) ASXSOR 8.13.1 provides that ASX Settlement must not close a CHESS subregister unless otherwise provided in the ASXSORs. Under the current rules, mandatory closure of a subregister is currently expressly contemplated under ASXSOR 8.14.1 but not under ASXSOR 8.14.2 in the event of a lapse, expiry, maturity or other relevant product lifecycle events (with ASXSOR 8.14.2 expressly addressing archiving).

We note that with regard to the closure of a subregister in the event of a lapse, expiry, maturity etc event, there is currently a 20 business day window before the security position is removed from the CHESS subregister. We suggest the ASX use this opportunity to consider reducing the timeframe for this processing activity. In our experience this time period results in reconciliation breaks for participants as the CHESS subregister continues to reflect holdings post the actual lapse or expiry date.

43. Under CHESS today, a Settlement Participant is not required to provide Registration Details as part of a message requesting the transfer of holdings from the Issuer Sponsored Subregister to the CHESS Subregister.

HSBC notes that the recent consultation and rule changes to accommodate Issuer Sponsored to CHESS transfers improvements introduced a new rule, 9.12.5A 'Pre-transfer validation' requirement. We note that this new rule has not been included in this consultation information. We suggest the ASX provide confirmation that as part of these rule changes, this recently added rule will be removed upon implementation of the new two-step issuer to CHESS transfer process, under the DLT environment, which has an included validation process undertaken by the Issuer based on registration details included within the participant's message.

56. Settlement Tolerance Override Amount

Participants will have the ability to override the ASX default tolerance amount for Bilateral Batch Instructions with a higher value on a per transaction value basis ("Override Tolerance Amount"). A Participant cannot set a limit that is less than the prevailing ASX default tolerance level. This functionality will also be available for new Bilateral Demand Settlement Instructions.

HSBC is opposed to the proposal to restrict participants from setting a limit within a settlement instruction that is less than the prevailing ASX default tolerance level.

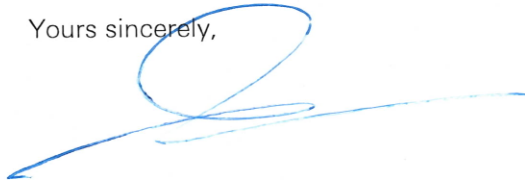
HSBC participated in the industry working group discussions, where the proposed solution was discussed to allow participants the flexibility to provide settlement limits based on their underlying clients' authorised limit amounts that are maintained within the participants' own systems.

In our view the implementation of this restriction would require the participant to calculate and compare internally held limits vs the ASX default limits on a trade by trade basis. HSBC are seeking further clarification from the ASX on the rationale of applying this restriction.

Additionally HSBC note that through our CDE testing, we have identified that the ASX is not currently rejecting a tolerance on a trade that is sent by a participant which is below the ASX default amount and we seek further clarification on this point.

We thank the ASX for considering our feedback and should the ASX have any questions, please do not hesitate to contact our Regulatory Affairs team via phone (02) 9006 5648 or email regulatoryaffairs.au@hsbc.com.au.

Yours sincerely,

A handwritten signature in blue ink, consisting of a large, stylized 'S' followed by a horizontal line extending to the right.

Sandra Powell
Senior Regulatory Affairs Manager
HSBC Bank Australia Limited