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## Context of this Document

The ASX Settlement Procedure Guidelines must be read in the context of the ASX Settlement Operating Rules.

Any terms explicitly defined in the ASX Settlement Operating Rules and used in the ASX Settlement Procedure Guidelines should be interpreted according to the definition given in ASX Settlement Operating Rules. This includes terms such as participant, registry, holder, issuer, subregister, and financial product. Because of the large number of these terms, they have not been capitalised for emphasis in this document.

In the interests of readability and comprehension, where a procedure applies only in the context of securities in a listed company, the specific term security has been used instead of the more generic term financial product.

## Change History

Version	Date	Description of changes
1.0	May 2005	Initial version of a merged guideline document incorporating details from both the PPG and IRPG
1.2	May 2007	Change of name to Australian Securities Exchange (ASX). Remove references to the decommissioned ASX World Link system
1.7	Dec 2010	Updates to include name changes within ASX Group and ASX Operating Rule books. Inclusion of reference to Approved Market Operators.
1.8	Mar 2012	Introduction of references to the ASX Managed Funds Service.
2.2	May 2013	Introduction of references to Cash Market Margining
3.1	Jan 2016	ASXOnline document merge
3.2	Mar 2016	T+2 Implementation and change in references from C&S Operations to Post Trade Operations
3.6	Oct 2018	Change to the Fund Request Cut-Off time.

## SECTION 2. CHESS OVERVIEW

### 2.1 CHESS CONCEPTS

CHESS is an acronym for Clearing House Electronic Subregister System.

CHESS provides a centralised electronic subregister for holdings of approved financial products. Holdings on this subregister are recognised in law as if they were maintained directly by the issuer. The purpose of the electronic register is to facilitate settlement of market transactions (executed on ASX trading platforms or other Approved Market Operators) between participants on a delivery versus payment (DvP) basis. CHESS also allows for the electronic transfer of ownership of financial products.

CHESS is owned and operated by the ASX Settlement Pty Limited (ASXS), a wholly owned subsidiary of the Australian Securities Exchange Ltd, a publicly listed company.

#### 2.1.1 Some CHESS History

For a long period it was recognised that inefficiencies in Australia's paper-based settlement system, such as those caused by demand settlement, must be addressed. The need for establishing a more efficient system was highlighted during the 1986/87 "bull" market. Settlement backlogs, caused by failure to deliver promptly, stemmed the free flow of funds between industry participants and between them and their clients, as well as raising concerns about counterparty risk.

The impetus for reforms to overcome these problems and to restore faith in the Australian equity market was boosted in 1989 by the "Group of Thirty" (G30). This international organisation identified the risks in securities settlements and subsequently promulgated a set of standards and goals for the industry worldwide, to alleviate those risks.

In order to achieve compliance with the G30 recommendations, the then National Companies and Securities Commission (NCSC) established a high level steering committee to co-ordinate reform of Australia's equities settlement system. In May 1990, the steering committee agreed to adopt the CHESS proposal for upgrading the system, as part of a three-stage strategy for upgrading Australia's settlement facilities.

The first stage (1989) was the introduction of the Flexible Accelerated Security Transfer System (FAST), which enabled eligible securities to be held in uncertificated form, at the discretion of the holder.

The second stage (1992) was the introduction of a short period (T+5) fixed settlement discipline for market transactions.

The third and final stage was the development and implementation of CHESS.

In 1994, the CHES electronic subregister was implemented (see section 2.1.3). By the end of 1995, the subregister had been extended to include all securities of Australian domestic issuers.

In August 1996, delivery versus payment (DvP) settlement was introduced for all approved securities.

In February 1999, the trade date plus three business days (T+3) fixed settlement regime was introduced. In addition, by this time all Australian domiciled listed entities were operating fully uncertified registers. This competed the implementation of the G30 recommendations.

In 2003, the federal parliament passed the Financial Services Reform Act (FSRA), which addresses various parts of the regulatory regime for financial services, including a new licensing regime for the operators of financial markets and clearing and settlement facilities. The new regime was implemented in March 2004.

Before the FSRA, the Corporations Act made provision for a single Securities Clearing House designated by the Minister, but did not require licensing of all securities clearing and settlement facilities. FSRA replaced this with a unified and flexible clearing and settlement facility-licensing regime for all providers of clearing and settlement infrastructure, thereby imposing regulatory consistency, and providing for more flexibility and competition.

### 2.1.2 The Financial and Legal Structure of the Market

As a result of the FSRA, the functionally based structure of the groups that operate the market is broadly as follows:

- **Australian Securities Exchange Limited (ASX)** is the market operator for all markets and so provides all trading services;
- **ASX Clear Pty Limited (ASXCL), formerly Australian Clearing House Pty Ltd (ACH)**, is the central counter party (CCP) and clearing facility for all markets, providing all clearing and counterparty risk management services; and
- **ASX Settlement Pty Limited (ASXS), formerly ASX Settlement and Transfer Corporation Pty Ltd (ASTC)** is the settlement processing facility for all markets, providing settlement and asset-registration services, which it facilitates through the use of CHES.

Each entity is separately licensed under the *Corporations Act* to carry on its functions. Each has its own rule book, which applies to all products and assets in relation to which services are offered. As of March 2004, the rules books are:

- **ASX Operating Rules**, covering access to trading facilities and the conduct of market participants;
- **ASX Clear Operating Rules**, covering the responsibility for counterparty risk for market transactions and access to clearing facilities and conduct of clearing participants; and

- **ASX Settlement Operating Rules**, covering access to settlement infrastructure for the purpose of payment, delivery and asset registration and conduct of settlement participants.

### 2.1.3 CHESSE Subregister

Central to the operation of CHESSE is the concept of uncertificated (dematerialised) holdings and the provision of a CHESSE subregister on which uncertificated holdings are maintained by controlling participants. The CHESSE subregister is an integral part of an issuer's register for an approved financial product.

The CHESSE subregister is recognised as forming part of the legal register of holders for a financial product, upon which each individual holder's holding and registration details are maintained. This is in contrast to the depository nominee approach to electronic transfer, common in foreign settlement systems, in which holding records are maintained as sub-accounts within the registered holding of a "super" nominee.

In addition to the CHESSE subregister, which is maintained by ASXS, the issuer's registry directly maintains the subregister for issuer sponsored holdings.

Balances of issuer sponsored holdings are maintained directly by issuers' registries.

Together, the CHESSE subregister and the issuer controlled subregister form the principal register for a financial product.

Through the electronic subregister, CHESSE implements a name-on-register approach to achieving book entry transfers.

Transfers may be initiated by participants for their own holdings and holdings under their control, as well as by ASXS in the process of delivery versus payment (DvP) settlement. Transfer requests between participants may be single-entry or matched dual-entry transactions. Movements are effected on demand or when scheduled through DvP settlement. Registries can effect holdings on the CHESSE subregister through holding adjustments and as a result of corporate actions.

If both parties to a market transfer are registered on the CHESSE subregister, the transfer is effected by a "book entry" within the CHESSE subregister. If one of the parties to a market transfer is registered on the issuer sponsored subregister, the holdings must be first converted to the CHESSE subregister before transfer. Such a movement involves a request by the participant and a confirmation from an issuer sponsored subregister.

### 2.1.4 Approved Financial Products

Financial products cleared and settled through CHESSE are deemed to be "Approved Financial Products". This characteristic is denoted on financial product information released by ASX Data Services.

All market trades both executed on ASX trading platforms or by other Approved Market Operators and reported to CHESSE in approved financial products must be

delivered and settled between participants electronically through CHESSE. Transactions in financial products that are not approved require settlement to occur outside of CHESSE.

Most financial products listed on the Australian Securities Exchange (ASX) are cleared and settled through CHESSE. Exceptions include:

- securities of issuers domiciled in a jurisdiction which does not recognise uncertificated holdings and/or electronic transfer of legal title; and
- debt securities issued by state, territory or commonwealth governments and their instrumentalities.

For securities in companies domiciled in countries that do not recognise uncertificated holdings or electronic transfer of legal title, the ASX developed CHESSE Depository Interests (CDIs). CDIs allow such securities to be transferred and held in CHESSE (refer to Section 19).

### 2.1.5 Regulation S: Offerings and Sales of Securities on ASX

For full details of the impact of Regulation S offerings and sales of securities on ASX, see ASX Listing Rules Guidance Note entitled, “US Entities – Regulation S Offerings on ASX.”

The following is an excerpt from this Guidance Note. Material on CDIs can be found in Section 4 while material on Foreign Ownership Restrictions can be found above in this Section.

“Regulation S [under the US Securities Act 1933] provides that offers and sales of securities by US entities made outside the United States will not trigger the registration requirements of the US Securities Act. The exemption applies where there are reasonable procedures in place to prevent public distribution of Regulation S securities in the United States to US residents, both at the time of the offer and in any secondary market. ...

Under US company law, CHESSE cannot be used for transferring Regulation S securities or holding legal title to those securities. Instead depository instruments can be used to allow transactions in Regulation S securities to be cleared and settled through CHESSE. These instruments are called CHESSE Depository Interests (CDIs). A US entity must issue CDIs over its securities if a security holder asks for CDIs to be issued. ...

The FOR [Foreign Ownership Restriction] facility provides a way of informing ASX market participants that special restrictions and conditions apply to transactions in Regulation S securities. ...

The FOR provisions of the ASX Settlement Operating Rules must be applied to the relevant securities. (See *ASX Settlement Operating Rules* and *Schedule 1*.) This involves the issuer undertaking and being responsible for additional obligations in respect of those securities.

The securities must be identified on ASX trading screens as being 'FOR US' securities. This identification means that the securities are subject to the restrictions advised by the entity. This information is also disseminated to information vendors in order that the notation "ORD US PROHIBITED" will appear in relation to these securities.

### 2.1.6 Holders

A holding in a financial product is registered on either the issuer sponsored subregister or the CHESSE subregister.

Any person or organisation legally entitled to own financial products can do so by being registered on the issuer sponsored subregister of the relevant financial products.

However, only participants and the holders they sponsor can hold financial products on the CHESSE subregister. An investor and a participant enter into a sponsorship agreement in order for the investor to hold financial products on the CHESSE subregister. An investor can "convert" their holdings between the two subregisters (see section 6).

### 2.1.7 CHESSE Communications with Sponsored Holders

ASX Settlement is responsible for communicating changes to CHESSE holdings (i.e. financial products held on the CHESSE subregister) to the registered owner.

Where the holding is held by the participant directly (as distinct from a sponsored holding) or as an entrepot account, this communication is by way of CHESSE messages.

In the case of a sponsored holder, CHESSE distributes:

- holding statements where a movement has occurred in the month; and
- notifications of certain events affecting the holding (refer to samples in the Appendix).

Holding statements are distributed monthly for all holdings that have had a movement during the month due to a trade or registry movement. The statements contain information for transactions that occurred in the relevant month. Historical information is not included in holding statements.

If a sponsored holder requires an early confirmation of a financial product movement, they can request an interim CHESSE holding statement through their sponsoring participant. Interim CHESSE holding statements contain the holder's last holding balance prior to the month of the request plus any transactions completed during the month of the request. Copies of historical statements are available on request from Post Trade Operations. Post Trade Operations will require details such as HIN, security code, and statement date, to process the request.

Generally, copies of original statements and notifications can be reproduced from ASX archives. Requests must be made to Post Trade Operations.

Custodians, nominees and trustees may suppress the generation of holding statements and notifications for holders they sponsor (refer to section 4.5). ASXS is required to notify sponsored holders if their sponsor has requested suppression or reinstatement of holding statements and holding notifications.

Communications to issuer sponsored holders are the responsibility of the relevant issuer's registry and occur outside CHES.

### 2.1.8 CHES Holding Subpositions

A holding subposition is created to move the authority to perform holding movements from the registered owner to a third party with a vested interest in that holding. The subposition remains registered in the holder's name. Subpositions are often used for takeover acceptances, buyback acceptances and collateral.

CHES checks that the total of a holding's subpositions do not exceed the holding balance.

CHES preserves the subpositions while the register is either open, suspended or closed. Participants can only increase a subposition while the subregister is open.

The subposition is removed either on the initiation of the third party or by the participant requesting the third party's permission through CHES.

When a subregister is archived the subpositions are eliminated by CHES.

Transactions initiated by registries will, if necessary, override the subposition. CHES proportionally adjusts subpositions during a reconstruction. In the rare instances where other registry-initiated transactions cause the aggregate subposition total to exceed the holding balance, CHES will reduce the subpositions accordingly (e.g. as a result of a divestment).

### 2.1.9 Financial Products Subject to Foreign Ownership Restrictions

Financial Products subject to foreign ownership restrictions (FOR) have predefined aggregate limits on the holdings of "foreign" persons. The limit is usually expressed as a percentage of total share capital (e.g. 49%). The aim of applying FOR to certain financial products is to ensure that foreign persons do not control more than a specified percentage of the issuer's share capital.

The source and nature of the restrictions are usually detailed in either the issuer's articles of association or the relevant legislation governing the issuer's financial products or both. These documents specify the actual aggregate limit allowed (e.g. 49%) as well as the definition of a "foreign person" for the purposes of the relevant issuer.

Breaches of foreign ownership limits can result in a buyer being divested of some or all of a holding (refer to section 5.9)

Participants should note that there is no standard definition of “foreign person” that applies to all issuers subject to foreign ownership restrictions. Participants must therefore exercise care in determining whether a person is a “foreign person” for the purposes of maintaining a holding in the relevant issuer’s financial products.

A special case of exists for securities subject to US Regulation S. For these securities the definition of “foreign person” includes only US residents and the predefined aggregate limit on holdings is 0%.

A CHES holder’s residency is specified in their registration details (refer section 5.1).

For transfers of foreign products with an FOR, CHES allows participants to specify a foreign to foreign transfer. This ensures a foreign buyer is allocated securities held by a foreign holder and removes the risk that the buyer will be divested of the holding (refer to section 8.1.6).

## 2.1.10 Users of CHES

ASX Operating Rules, ASX Clear Operating Rules, and ASX Settlement Operating Rules govern the admission criteria and the conduct of all users of CHES.

CHES users that clear market transactions (both executed on ASX trading platforms or by other Approved Market Operators), have access to batch settlement, or sponsor the access of third parties to CHES are called participants. Participation in CHES is discussed in more detail in section 3.

CHES identifies its users with a unique participant identifier (PID); despite the code’s name all users of CHES are allocated a PID, not just participants.

The following table describes the key roles various users of CHES perform in the market. Participant roles are discussed in more detail in section 3.

CHES User	Description
Market Participants	<p>A market participant is an agent that executes investors’ orders to buy and sell financial products on ASX trading platforms.</p> <p>Market participants must be able to clear and settle instructions in CHES either themselves or by having a clearing agreement with a clearing participant that performs clearing and settlement in CHES on their behalf.</p>
Approved Market Operators	<p>Approved Market Operators execute investor’s orders to buy or sell financial products on their trading platform.</p> <p>Approved Market Operators register their trades within CHES instructing a clearing participant that performs clearing and settlement in CHES to clear and settle as per their agreement.</p>

CHES User	Description
Institutions and Custodians	Institutions and custodians are eligible to participate in CHES upon substantiating their ability to meet participation criteria. They are also called non-market participants.
Account Participants	Account Participants are market participants who also perform the sponsorship function. Account participants nominate a clearing participant to administer their CHES interface and clear and settle on their behalf.
Clearing Participant	A clearing participant performs the clearing function (i.e. acts as principal to the central counter party). Clearing participants are required to meet their daily Cash Market Margin obligation. Clearing participants must also be settlement participants or have an agreement with one. Clearing participants can act for themselves (direct clearing participants) or on behalf of other participants (general clearing participants).
Settlement Participant	A settlement participant performs the settlement function (i.e. transfer of payments and financial products and registration of title). Settlement participants can act for themselves or on behalf of other participants.
Issuer	An issuer is a company that has a financial product listed on the ASX. An issuer has a register of holders of its financial products.
Registry	A registry maintains an issuer sponsored subregister of holdings in its financial products on behalf of an issuer. Some issuers have a registry in-house and some use a specialist registry service provider. Registries have access to specialised CHES functionality, which includes the authorisation of conversions and transfers between the issuer sponsored sub register and the CHES subregister.
Takeover bidder	During a takeover bid or equal access buyback, either the takeover bidder or their agent (e.g. a registry) performs certain obligations in CHES (e.g. acceptances). Refer to section 13. Takeover bidders are usually specialist settlement participants.
Payment Provider	Each participant establishes at least one payment facility for the settlement of cleared funds with a payment provider (refer to section 3.9).

CHESS User	Description
ASX Clear Pty Limited	Participants can reserve financial products in a CHESS subposition as collateral cover for ASX Clear Pty Limited (ASXCL) positions in exchange traded derivatives. Once reserved in a subposition, the financial products are controlled by ASXCL (refer to section 17).

### 2.1.11 Fees and Charges

ASXS charges for the services provided by CHESS.

ASXS publishes a full schedule of all charges levied for the use of CHESS services on the ASX Online website (<http://www.asxonline.com.au>). This schedule includes a cross reference to the CHESS messages which trigger the billing for each service.

For information on tariffs and levies, refer to section 18.

**2.2 CHESS PROCESSING SCHEDULE**

Participants and registries can send requests and instructions to CHESS at any time. CHESS actions each message at the earliest time possible, given the constraints of the processing schedule shown in the following table.

<b>Event</b>	<b>Time</b>	<b>Description</b>
Registry Processing	05:10	CHESS available for Registry processing only.
Start of Day	06:00	CHESS begins processing transactions, including those submitted and queued during End of Day processing.
RITS RTGS Start of Day	09:15	CHESS begins processing RTGS settlement requests from the queue.
Cash Market Margin Settlement Cut-Off	Approx. 09:15	CHESS stops processing any Margin Settlement Amount Change Requests for that day's Cash Market Margin Settlement.
Fund Request Cut-off	11:00	Fund Application and Redemption requests effecting settlements in the current settlement cycle must be received. Allows 15 minutes for the Product Issuer Settlement Participant to either accept or reject the Fund requests prior to Settlement Cut-Off.
Settlement Cut-off	11:30	All instructions and requests effecting settlements in the current settlement cycle must be received and/or matched. All settlements for the current settlement cycle must have been delivered to CHESS. Participants must have moved all financial products due for delivery in this settlement cycle to a settlement HIN.
CHESS Settlement Processing	soon after 11:30 until approx 13:00	CHESS determines the funds and financial product obligations for the day and notifies participants and their payment providers. CHESS does not process demand transfers settlement processing

Event	Time	Description
Funds Authorisation	60 minutes after the payment provider is notified by ASX Settlement and in any event no later than 2.30pm	Payment Providers authorise funds delivery on behalf of participants. Participants must have made funds available to their payment provider by this time.
DvP Settlement	approx 12:30	The point of irrevocable exchange of funds for good title in financial product for settlement instructions in this cycle. The actual time varies, due to abnormal events and variations in authorisation response times on any given day.
Batch Settlement Processing		CHESSE effects batch settlement in the CHESSE subregisters. The actual processing time depends on transaction volumes.
Settlement Reporting Available	Usually from 12:30	Settlement reporting is available immediately following the completion of batch settlement processing.
Funds Availability	Usually after 13:00	Payment providers disburse funds delivered during settlement to participants. Typically, participants should be able to access delivered funds about 30 minutes after settlement.
Settlement Deadline	16:00	The CHESSE payment instructions must be made before the RITS cut-off for DvP settlement to be effected on a given day.
CHESSE RTGS End of Day	16.25	CHESSE stops accepting RTGS settlement requests and cancellations for today's settlement date. CHESSE continues to accept RTGS requests and cancellations for future days until End of Day.
RTGS Cut-off to Send Transactions to RITS	16:30	CHESSE stops sending RTGS settlement request and recall requests (from participant initiated cancellations) to RITS.

Event	Time	Description
CHESS RTGS End-of-Day Recalls	17:00	CHESS sends recall requests to RITS for each unsettled RTGS transaction in the RITS system queue. RITS then removes the target settlement and advises CHESS. CHESS treats these as failed RTGS settlements.
End of Day	19:00	CHESS stops actioning instructions and requests. All messages received are queued for processing at the next Start of Day. CHESS performs End of Day processing, which includes the notification of cash market margin obligations, corporate action adjustments on holdings and outstanding settlement instructions. CHESS produces routine reports and certain demand reports. CHESS aggregates value transactions and projects any short positions and net funds obligations for the next settlement cycle.
End of Day Processing Complete		Once CHESS End of Day processing is complete, reports may be collected.

RITS is the Reserve Bank's funds settlement system.

CHESS queues any transactions that it cannot action immediately. In some circumstances a queued transaction may no longer be valid when actioned.

CHESS processing is discussed in the various chapters of this guide, which include:

- Market Trades (section 7);
- Settlement (section 9);
- Corporate actions (sections 12 and 13); and
- CHESS reporting (section 16);
- ASX Managed Funds Service (section 28).
- Cash Market Margining (section 29).

### 2.3 CHESS NETWORK

The CHESS network is discussed in detail in Section 10 of the External Interface Specification (EIS).

The CHESS network is not terminal based. It supports computer-to-computer communications. The computer communicating with CHESS could be a personal computer or an application system running on a larger scale computer.

Communication between a participant's computer system and the CHESS system is via one of the supported TCP/IP networks. The supported networks and their connectivity options are listed in the EIS.

As CHESS exchanges messages of financial value with participants, communications security is a vital part of its network design. This security is built on two principles:

- encryption of messages; and
- message authentication.

Encryption ensures confidentiality of information sent between two parties and prevents a third party from accessing that information. Its use is transparent to the sending and receiving systems.

Message authentication ensures that

- a valid sender sent the message (preventing the sending of unauthorised messages) being sent; and
- the integrity of the message is preserved during transmission (preventing unauthorised changes to the message).

These techniques ensure privacy of communications, a valid message origin, integrity of content and no risk of tampering.

Both encryption and message authentication are mandatory for all CHESS users. They require additional software development by the participant and may require specialised hardware.

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