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Senate Select Committee on Financial Technology and Regulatory Technology
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

By email to fintech.sen@aph.gov.au

Re: Fintech Inquiry – Senate Fintech Committee

Computershare

Founded in 1978, Computershare is one of Melbourne's first start-up financial services technology "fintech" companies. Initially providing bureau technology services for share registration, Computershare is now a global market leader in share registration and transfer agency, employee equity plans, mortgage servicing, proxy solicitation and stakeholder communications.

Computershare listed on the ASX in 1994, with 50 staff, a market capitalisation of A$36 million, and around six million shareholder accounts were administered on its platform. Since then, it has grown to operate in more than 20 countries, become a member of the ASX 50, and manage 75 million investors representing trillions of dollars in invested assets. Computershare is one of the largest companies to qualify for the newly created S&P ASX Tech Index, second only to Xero.

In Australia, Computershare manages the share registers of some of the largest companies in Australia including BHP, Rio Tinto, National Australia Bank and CSL, as well as many of the emerging success stories in segments such as fintech, biotech, agriculture and of course resources.

Computershare is a global financial services company who have built success around the world by being first to market on innovation and led the market on sustainable change. Through innovation, we adapt to deliver first-class service outcomes for our customers and their stakeholders.

Submission overview

Computershare welcomes and is excited by the interest and commitment from the Federal Government to advancing and enabling the Australian fintech sector. Computershare is supportive of industry-led innovation in the Australian equity market and welcome the prospect of utilising the new technology capabilities proposed via the replacement of the aging ASX CHESS platform. Computershare has engaged deeply, robustly and contributed extensively to the consultation and development stages of the project as evidenced by our formal feedback and acknowledged by ASX. We have significant resources dedicated to our readiness on Day 1 of this new system. Our commitment is not in question.

We note that whilst this project has been frequently described as a technology replacement project, it is important to highlight from the outset, the effect of the changes as currently proposed by ASX through the CHESS Replacement Project constitute a very significant change to the technology that will progressively and materially change the structure of the Australian equity capital market and how it works compared to today. Specifically, there are changes in the roles, responsibilities, processes, and importantly access to, and custody of data. It is our view that market structure changes, be they through technology changes, rule changes, or by merger or acquisition, should take place in a fair and transparent way, such that it results in a level playing field. However, for this to occur, there needs to be an acknowledgement from ASX that this is a change in the market structure, and therefore allow the appropriate scrutiny and governance to occur.

Central to the assessment of the merit of any project, but even more importantly in the instance of a change to the structure of a market, is an objective analysis of cost versus benefit. What are the known benefits of this project and to whom do they flow? What are the costs of the project, and who is to bear those costs?

Having considered the materials provided by ASX to explain the benefits of the CHESS Replacement Project, Computershare holds a concern that the suggested benefits of this project may not be realisable, either due to the presentation of inaccurate information, the absence of critical analysis, or the reliance of secondary and tertiary events that are beyond the control of ASX.

In addition, we hold concerns over the risk accumulating in this project, and therefore the viability of the project in light of an April 2021 go live deadline. To this end, we believe that ASX and the industry needs an additional twelve months to ensure that the critical gaps that exist at this very late stage in the project can be appropriately addressed. We, along with other industry stakeholders, have written to ASX to convey these concerns, and have called on ASX to formally delay the project to allow ASX to complete critical outstanding elements, and allow the industry, market stakeholders and regulators to consider the ASX’s proposal in its entirety.

Our response to this inquiry will concentrate on the development of Australia's fintech industry, its existing players and the importance of actively responding to the development of technology in a manner that encourages market competition and further innovation. Our submission specifically outlines our concern with the recent development of financial infrastructure that could have significant industry wide impacts and unequally distribute industry influence across the private sector.

We specifically mention ASX's CHESS Replacement Project, which aims to overhaul Australia's core system that facilitates clearing, settlement and other post-trade services. This project provides a precursory warning to Government and industry and highlights the need to protect Australia's critical technology infrastructure to continue to safeguard and promote market competition and ensure we continue to promote innovation.

The CHESS Replacement Project represents a significant and rapid change for the whole industry and needs to be managed appropriately. Currently, the approach taken by ASX (ASX remains steadfast in driving the project to a self-imposed April 2021 implementation plan), is increasingly creating uncertainty, leading many industry stakeholders to question the projects underlying corporate motives, and some to question the individual incentives to ASX management in pushing for this wholesale cut-over at that time. With just over a year until the implementation of this new technology, ASX has still not released all information about the project, inhibiting the industry's ability to prepare and increasing the risk on the market.

At this stage, and with the information available, it seems the ASX is attempting to entrench its monopoly powers over the industry. As our industry continues to evolve and new technologies are adopted, the Government must take an active role in encouraging growth and market competition. We believe that sector regulatory bodies must practice enacting their existing legislative powers to oversee significant and industry-wide impacting projects such as this.

In addition, and in response to the rapidly changing fintech environment, appropriate regulatory measures need to be implemented to ensure our Government can adapt, respond and manage the natural development of the Australian fintech industry.

Our commitment to innovation

Computershare is a unique Australian fintech success story founded on entrepreneurial spirit and innovation. Many of the world's leading organisations use our services to streamline their processes and maximise the value they provide to their investors, employees, creditors and customers. This requires us to ensure we are continuously optimising our internal infrastructure and services to remain competitive.

We are a strong advocate for innovation and believe it is an important catalyst that drives free market competition, productivity, reduces cost and promotes positive consumer and customer outcomes. Over the last 42 years, due to our commitment to improve our service and develop innovative solutions for our clients, we have grown and thrived throughout the world. One of the key reasons for our success is our constant investment in technology research and development, seeing Computershare invest over $72m USD in 2019 alone.

The continued innovations and technological developments within the industry have forced financial institutions to improve their services, efficiencies and customer offerings through the uptake of new technologies. A recent example is Commbank's response to AfterPay's dominance in the Australian market, partnering with Klarna to provide their customers with more purchase options.

The Fintech Industry

Australia is ranked eighth in the Global Fintech Index City Rankings 2020, which evaluates fintech ecosystems in more than 230 cities across 65 countries. More than 7,000 companies globally make up the ecosystem. While there is significant room for growth, we believe that Australia's established fintech industry is strong. With the Government's support, Australia has the potential to become a leading global fintech player and Computershare is excited to help achieve this.

In responding to the Senate Committee on Financial Technology and Regulatory Technology, Computershare is providing this submission on the topic of regulation. We agree that "regulation provides the ecosystem necessary for Australia to be a successful nation in technology."[1]

The Australian Government has a vital role to play in ensuring the ecosystem is supportive to further develop the fintech industry. It is important to recognise and nurture the existing well-functioning market and efficient industry players who have been forging paths through it. At Computershare, we will continue to push the technological boundaries and build a resilient workforce to compete both globally and domestically and will call on the Government to ensure this ecosystem remains open and does not become dominated by one player.

As the fintech sector develops, we believe that regulatory frameworks must be put in place that supports the growing needs of the industry and to mitigate emerging issues. Specifically, Government and regulatory bodies need authority to take a more active role in fostering and protecting competition within the market against a dominant industry player with significant influence.

ASX is currently in the process of replacing the core system that facilitates clearing, settlement and other post-trade services in Australian markets, known as CHESS (Clearing House Electronic Subregister System). Computershare is concerned that the ASX is using the CHESS Replacement Project as a guise to fundamentally change the policy structure of core financial market infrastructure in Australia creating a risk to the financial industry.

Of specific concern is ASX's authority to amend the rules that determine how the industry interacts with this technology, potentially controlling access, price, core business processes and existing commercial business relationships. In addition, and as explained in more detail below, the ASX has a significant conflict of interest in this project.

ASX's CHESS Replacement Project

The ASX CHESS Replacement Project is a "once in a generation" change to the Australian financial market infrastructure. It exceeds a simple replacement of an aging technology with a modern equivalent. The scope of this project creates a complex matrix of workstreams with intimate and sophisticated interdependencies and is uniquely challenged by commercial conflicts of interest in what was previously a mutual model when CHESS was originally developed.

The ASX – a publicly listed company and owner of the infrastructure – plans to replace the core system that facilitates clearing, settlement and other post-trade services in Australian markets with Distributed Ledger Technology (also known as 'blockchain'). The replacement process, which began in 2014, is currently timetabled by ASX to be implemented in April 2021 with no roll-back option.

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[1] Senate Select Committee on Financial Technology and Regulatory Technology, Issue Paper, p8.

Initially, CHESS was an industry asset owned by the ASX, which was a mutual at the time of its development. At that time, CHESS operated under the auspices of an independent industry-representative Board. In 1998, ASX subsumed a dual role as a commercial, for-profit listed entity and a licensed market operator for listing, trading and post-trade services, with rule-making authority over those services.

It is clear based on current record trading volumes that ASX needs to soon replace its aging infrastructure. It has been planning to do this since 2014. However, whether any new infrastructure should be doing more than ASX provides in terms of critical post-trade services today, versus focussing on being able to offer such critical services at much very larger scale than today's routine volumes to safeguard the integrity of the markets and the efficient operation, remains an open public interest policy issue.

It is ASX's rule-making control over the new CHESS technology – a nationally significant piece of infrastructure – that is one of several major concerns, with its concomitant influence over how stakeholders can engage with the market infrastructure.

Project concerns

1. Benefits and bearers of cost

A review of the benefits of this project communicated to the market consists of multiple inaccurate and general suggestions rather than analytically supported and proven benefits. Typically, these are framed with the ideal, "Wouldn't it be great if…."

- Dividends

  "Wouldn't it be great if dividends could be paid closer to the record date to prevent a third party sitting on your cash?"

  Cash is held by the issuer until the day prior to the payment of the dividend, not by a third party. The scope of this project would not influence this outcome, unless the issuers were willing and able to change this timetable and is not achievable through a technology change alone.

- Rights issues

  "Wouldn't it be great if you could run a Rights Issue in less time?"

  The timetable of a Right Issue is determined by the ASX Listing Rules and is designed to protect the interests of minority shareholders. A change to this timetable is not achievable through technology change alone.

- Proxy voting

  "Wouldn't it be great if you could see the real-time voting of the beneficial holder?"

  The realisation of this benefit would require the sharing of commercially sensitive data by a third party. The market is much better placed to facilitate market-driven innovation. A very strong example of this is the Proxymity platform developed through a partnership between Citibank and Computershare, and more recently also including Link.

- Cost savings

  "Wouldn't it be great if we could improve the efficiency of the superannuation industry by 10% then we could start to talk about $1 billion of savings... "

  There has been no data or analysis provided to identify or substantiate where these costs savings would come from or how these cost savings will be achieved.

- Fintech community

  "Wouldn't it be great if we had a fintech community building apps off this new pool of data?"

  It is unclear who's data and what data will be made available for commercialisation by ASX, and other fintechs that have yet to demonstrate they can deliver a wide array of solutions.

> While ASX has long called on fintech developers to enter the Australian market, there is no evidence that there are enough of these emerging companies to justify this wholesale change. It is also not clear if such companies, if they arrive on Australia's shored or are home grown, will have sufficient and affordable access to appropriately qualified programmers (given the proprietary language used in the project) to have any material impact. This goes not just to the core of the Government's fintech policy but to the veracity of ASX's non-existent business case.

In addition to the lack of documented explanation or support for the proposed project benefits, the real costs that have been incurred on this project are expected to extend into the hundreds of millions of dollars for the project costs, all of which will need to recovered from the shareholders and issuers, in addition to the higher operating costs and risk that will result from the uncertainty upon go-live.

2. Risks to the market

Computershare and a number of entities across the industry have been vocal and proactive participants in the process to implement the new CHESS system and we continue to commit substantial resources to contribute to its successful development and implementation. We fully support the adoption of innovative technology to improve the efficiency and competitiveness of the Australian market and have been a market leader in developing innovative digital services for investors. However, we believe the level of risk accumulating in this project, left unchecked, has the potential to jeopardise the stability of the Australian financial market.

We have outlined our main concerns in the table below.

Not just a technology update	ASX has advertised the CHESS Replacement Project as nothing more than a technology updated, "to make [ASX] ready for the next 25 years of innovation."2 After attending more than 100 meetings with ASX, it has become clear to us that the technology update is just a small part of what is being undertaken. Since November, ASX has started releasing new business rule amendments that dictate how the market will interact with the new CHESS technology. Currently, over 450 pages of information have been released – with a final tranche of rule amendments planned for release in the coming months, as well as revisions to previously issued amendments. This indicates a significant change to the fundamental rules that the current CHESS platform operates within. We are concerned that ASX is substantially changing its operating model to potentially entrench its monopoly and extend its reach into new services. ASX is also using the rule amendments to mandate changes to the roles and responsibilities of stakeholders and data control through the system. We have concerns that the ASX is operating as a for profit commercial businesses with the expansion of the CHESS replacement program and no longer obligated to act in the national interest. The rules are granting ASX the right to create an advantage

2 Peter Hiom, Deputy Chief Executive Officer, Hansard record, Senate Select Committee on Financial Technology and Regulatory Technology, 20 February 2020, https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Fcommsen%2Ff496500e-17b0-4ca7-a29e-a2244e0c6fa4%2F0001;query=Id%3A%22committees%2Fcommsen%2Ff496500e-17b0-4ca7-a29e-a2244e0c6fa4%2F0000%22.

Project parameters	From the information available, it seems that ASX is preparing to utilise its rule-making authority to overhaul the current regulatory framework that dictates how the industry interacts with the current CHESS service. We are concerned that the ASX is using its discretionary powers to mandate who a "user" of the new blockchain technology will be, potentially limiting industry access to the infrastructure and reducing commercial roles. If access is limited, competition within the market could be significantly reduced. It is disconcerting that, despite the extensive rule amendments released already, which in many regards alter the respective responsibilities of CHESS users, we as yet have no visibility of rules that will govern the new forms of technical and commercial access to the new platform that ASX has been widely promoting, such as the use of 'nodes' on the blockchain. Additionally, despite repeated direct requests, there remains a critical lack of clarity regarding the pricing and technical and commercial access arrangements for agents such as Computershare, that act on behalf of multiple issuers to interact with CHESS. Whilst not yet conclusively discernible as the necessary information remains incomplete, our concern centres on the impact that the resulting market structure changes will have on the contestability of competitive markets. Our concerns are driven largely by the centralisation of data to the ASX, which is occurring through the design of the technology, and the extensive changes proposed to the Business Rules. If left unchecked, this will expand the current monopoly footprint that ASX has into otherwise contested offerings in the market today, forever changing the landscape. We believe regulatory intervention is needed now to ensure the market is not permanently impacted.
Real and perceived conflicts of interest	At the heart of industry concerns is the potential conflict of interest of ASX being the project owner responsible for the design of the replacement project, the body controlling the rule amendments that govern all users, as well as its future operator and a for-profit ASX (self) listed entity. We are concerned that the replacement project's primary beneficiary is the ASX rather than the issuers, investors and participants the project is purported to benefit. To date, ASX has resisted calls to produce a business case that could demonstrate the benefit to market stakeholders, despite the project costing the industry hundreds of millions of dollars to develop new processes and reconfigured integration in order to comply with ASX's preferred future approach.
Business case	The case for structural change and functional enhancements has not been shared in detail. The base case is to replace ageing technology, but the information released, and current processes undertaken to roll the CHESS Replacement Project out indicates that ASX may be extending the scope of its operating platform. No financial data has been provided to justify why this extended functionality is necessary or how it benefits the community of broader stakeholders. We remain unconvinced that the change will see a return on investment for all parties, particularly from the proposed changes to the base functionality. In the absence of justification, financial market firms are at risk of incurring significant effort and cost for little or no return.

Project risks

ASX's approach to roll out the CHESS Replacement Project has now created an environment of uncertainty and established a significant level of perceived project risk. ASX must address these risks now to ensure the implementation to the new technology can occur seamlessly.

We have outlined the project risks that could impact the projects smooth transition.

Timetable risk	ASX has been developing the project for seven years, and with 13 months until go-live, the industry still lacks clarity and certainty regarding critical technical and procedural aspects of the project, with no current comprehensive view of the regulatory changes and their impact until at least mid-2020. Due to the lack of information currently available, we are extremely concerned that the project can be delivered in a fair, orderly and secure way. ASX's current aggressive timetable is only increasing the risk of project failure. We have requested that ASX to delay the implementation of the CHESS Replacement Project for twelve months to ensure its industry consultation process is appropriately thorough to ensure it identifies and manages the various elements that generate this potential risk. We note that the ASX is unable to maintain its own published deadlines in this timetable, with the seventh and planned final tranche of technology specifications delivered largely incomplete at the beginning of March 2020. Specifically, critical elements relating to reporting and corporate actions we absent or incomplete and are now expected to be available some four weeks late.
Financial risk	By pursuing the current timetable, hundreds of millions of dollars expected to be committed to the project may be at risk if any part of the industry fails to meet its obligations, or if the system fails to connect the different industry segments properly. If the project fails, the disruption to Australia's equity markets would mean millions of dollars per day could be lost.
Market risk	The hundreds of millions of dollars that are being invested in integrating into the new system will put a strain on some industry participants. This investment has been made without the clarity and certainty of critical aspects of the project, which are still not finalised. The rules will not be publicly available in full until six months before the platform goes live. Yet the timeline requires all major participants to be making significant investments in internal infrastructure from now. Governance, complexity, volume, time allowed for review, an absence of analysis and explanation, errors and a lack of specificity have meant that it is impossible for the majority of the industry to assess the veracity of the rule changes, and that the technology performs as the rules require and vice versa.
Reputational risk	The current timetable and project risks are a threat to Australia's global reputation as a stable financial market centre. As the first application of this technology in a market anywhere around the world, there is a great deal of focus on the successful implementation of this project. Significantly, any disruption to the market as a result of anything short of a perfect transition, will have profound implications for listed companies, retail investors and the confidence of international participants in doing business in Australia.
Technology risk	The technology being implemented has never been tested on this scale or in any financial market. Alarmingly to many, ASX has adopted a “Big Bang” implementation by April 2021 with no roll-back strategy and are not running a back-up system in parallel. If it doesn’t work, there is no Plan B. This risk is further exacerbated by ASX's approach to communications and industry consultation, providing the industry with no oversight of the technology changes and impacts.

The role of Government

The CHESS Replacement Project demonstrates ASX's level of influence over market operations, leading to potential control over consumer pricing and industry access to its services. The project also highlights ASX's disregard of the impact the CHESS Replacement Project has on the whole industry, as the technology impact requires all major participants to be making (in many cases) multi-million dollar investments for an unclear outcome.

By the time the Government and regulatory bodies have access to ASX's proposal and are able to review the new business rules in full, significant investment by industry stakeholders will have already been made. There needs to be more transparency and regulatory oversight over this process to limit uncertainty and wasted industry investment.

Current regulatory powers

Currently, market regulators have the authority to intervene and prosecute companies that participate in anti-competitive activity, after the fact. These powers are derived from the Competition and Consumer Act[3], which aims to preserve and promote competition in the marketplace by prohibiting or regulating anti-competitive agreements and conduct, including exclusive dealing[4] and the misuse of market power[5], amongst other things.

We understand that the Council of Financial Regulators (COFR) – which comprises ASIC, RBA, Treasury and includes the ACCC as an observer – has been approached by Computershare and other the industry stakeholders seeking an investigation into the new CHESS Replacement Project and anticipated outcomes. While acknowledging the potential risks this project presents, COFR has advised that it is unable to intervene at this point, as the technology and rule amendments are yet to be implemented.

The release of the draft changes to the Business Rules triggers direct oversight of the scope of this project by ASIC through their role as the delegate for the Minister, responsible for the allowance or rejection ASX's proposed Business Rule amendments via a process of non-disallowance. This presents a critical inflection point in the project.

As the ASX has adopted a three-tranche approach to releasing the business rules, ASIC will not be able to provide feedback or a determination until six months before the intended roll-out of the new CHESS technology. This places significant risk on the industry currently making significant investments to ensure they are ready for the April 2021 implementation date.

To expedite the current approval process, we believe a higher level of collaboration between the technology developer, regulators and the industry is required. This approach would facilitate a more transparent and consultative approach, which would enable better regulatory oversight of the technology development, rule amendments and overarching industry issues that emerge during major industry change projects.

Proposed legislative next steps

As technology advances, so should the regulatory oversight capacities of our Government and regulators. The CHESS Replacement Project highlights the potential risk placed on the industry when critical national infrastructure is replaced, and one company mandates price and how the sector can access this service.

The Council of Financial Regulators (COFR), in cooperation with the Australian Competition and Consumer Commission (ACCC), has been developing a policy framework to support competition in clearing and settlement of Australian cash equities. It has also developed a set of regulatory expectations for ASX's conduct in the provision of such services where it is a monopoly provider.

[3] Competition and Consumer Act 2010.
[4] Section 47, Competition and Consumer Act 2010.
[5] Section 46, Competition and Consumer Act 2010.

The drafted legislation provides COFR and the ACCC with more oversight and control on how ASX can implement its rule-making powers with respect to its services, such as the technological infrastructure, CHESS, or its updated form. For more information on the drafted legislation, click here[6].

To mitigate lasting damage to Australia's financial markets, we believe that this legislation must be passed – and fast-tracked – to allow the COFR to enforce appropriate parameters around the ASX's use of its monopoly powers.

Finally, we wish to reiterate Computershare's support for industry lead innovation in the Australian equity market. We have been involved with, and at times led market structure changes in global financial markets around the world, where we have successfully innovated and adapted to deliver the highest quality of outcomes for our clients. We believe that this project presents a significant opportunity set up Australia for the next 20-30 years of highly-efficient markets if we can facilitate the application of the necessary checks and balances to the process and implement a platform that effectively delivers on needs of users in the Australian eco-system, just as the industry did, led by ASX, in the 90s.

Thank you for the opportunity to provide this response. If invited, we would be happy to speak to the Government directly about our submission.

Yours sincerely,

Ann Bowering

CEO Issuer Services, Australia and New Zealand

[6] https://www.cfr.gov.au/financial-market-infrastructure/regulatory-framework/competition-in-clearing-and-settlement.html