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Australian Securities and Investments Commission
Mr Nathan Bourne
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ASX WILL REASSESS ALL ASPECTS OF THE CHESS REPLACEMENT PROJECT AND DERECOGNISE CAPITALISED SOFTWARE OF \$245-255 MILLION PRE-TAX IN 1H23

Key points

- ASX will reassess all aspects of the CHESS replacement project following completion of an independent review, conducted by Accenture, and its own internal assessment.
- The independent report identifies significant challenges with the solution design and its ability to meet ASX's requirements.
- Current activities on the project have been paused while ASX revisits the solution design.
- Current CHESS remains secure and stable, and is performing well. ASX will continue to invest in its capacity and resilience.
- The CHESS replacement capitalised software will be derecognised in light of the solution uncertainty, resulting in a charge of \$245-255 million pre-tax (\$172-179 million after tax) in 1H23. This will have no impact on dividends.
- A Project Director with extensive technology transformation experience has been appointed for the next phase of the CHESS replacement project.
- ASX remains committed to providing the best long-term clearing and settlement solution for the Australian financial market.

The independent report is available [here](#).

ASX Chairman Damian Roche said: "We began this project with the latest information available at that time, determined to deliver the Australian market a post-trade solution that balanced innovation and state-of-the-art technology with safety and reliability. However, after further review, including consideration of the findings in the independent report, we have concluded that the path we were on will not meet ASX's and the market's high standards. There are significant technology, governance and delivery challenges that must be addressed.

"We are committed to providing the Australian market with the very best and most viable long-term solution. I am proud of our ambition but believe we should now pause to reassess our solution for the future.

"On behalf of ASX, I apologise for the disruption experienced in relation to the CHESS replacement project over a number of years. ASX always endeavours to act in the best interests of the market, and I thank our customers and other stakeholders for their patience and support. Today's decision has been made by the ASX Limited and Clearing and Settlement Boards, and it has not been made lightly.

"ASX provides critical market infrastructure. What we do matters. We must do it right and we will. Importantly, our current CHESS system is performing well and investment in it will continue, giving us flexibility to reassess the various pathways for its ultimate replacement," Mr Roche concluded.

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Financial impact

Given the reassessment being undertaken and the uncertainty of future economic benefits from the CHES replacement solution already developed, all of the capitalised software in relation to the development will be derecognised in 1H23. The non-cash derecognition charge is estimated to be in the range of \$245-255 million pre-tax (\$172-179 million after tax) and will be classified as a Significant Item in the 1H23 results.

ASX intends to maintain its existing dividend policy, with dividends based on 90% of Underlying Net Profit After Tax.¹ The company's outlook for FY23 operating expense growth remains unchanged at 10-12%. Our forecast for FY23 capital expenditure is expected to reduce by approximately \$15 million as the CHES replacement team is downsized to focus on solution design.

Independent report findings

Accenture was commissioned by ASX to review aspects of the CHES replacement project focused mainly on scalability, resiliency and supportability of the application, and to advise on confidence in executing the application delivery plan. The findings of the review provide an important input into ASX's own continuing assessment.

ASX considers this independent report underscores the magnitude and complexity of the CHES replacement project and raises significant issues including:

- **Application readiness** – the report estimates the application software is 63% complete (ie delivered and mostly tested) when considering both functional and non-functional requirements and the timeline to completion is uncertain.
- **Complexity in the integrated solution** – the report identifies complexity in the integrated solution design, including in the way ASX requirements interact with the application and underlying ledger. These complexities contribute to challenges in achieving the necessary supportability, scalability and stability for clearing and settlement.
- **Project governance** – the report identifies vendor management issues in the way teams from ASX and its delivery partner Digital Asset operate and interact which present challenges in project delivery. The report observes a number of inefficiencies in the delivery lifecycle through to testing, with siloed execution and reporting resulting in misaligned views of status on delivery progress, risks and issues.

ASX Managing Director and CEO Helen Lofthouse said: "Replacing CHES is a large and complex undertaking. While ASX is keen to embrace technology that benefits the market, it's clear we need to revisit the solution design as well as validate and test the feedback from the independent review to assess changes required to bring the project to market safely, efficiently and for the long-term.

"The independent report, coupled with our own assessment work, confirms a number of significant challenges associated with aspects of the CHES replacement project. These findings provide valuable inputs to helping us determine a revised solution. We have some work to do before updating and consulting with stakeholders more deeply.

"To be clear, the derecognition charge reflects the uncertainty of the future value of the current solution design. It does not prevent us from using parts of what we have already built if we determine there are adjustments we could make to our current design, which will enable it to meet ASX's and the market's high standards.

"Our clearing and settlement licences are critical. We take feedback seriously and examine it carefully. We are aiming for the best solution for the Australian market, and will be wide-ranging and thoughtful in our analysis of the options.

"In the meantime, our priority is continuing to maintain the stability of the existing CHES system, which underpins the smooth operation of our financial markets. In recent years, we have increased our investment in the capacity and resilience of the existing system, and are confident it will continue to serve the Australian marketplace well into the future," Ms Lofthouse concluded.

¹ Underlying Net Profit After Tax as disclosed in Note B1 Segment Reporting on page 83 of Annual Report 2022.

Governance and industry input enhancements

Effective today, ASX has appointed Tim Whiteley, a highly experienced technology transformation executive, as Project Director for the next phase of the CHES replacement project (see brief biography at the end of this announcement). Mr Whiteley will report to the CEO. He will focus on revisiting the solution design, establishing new project governance arrangements, strengthening vendor management and positioning the project for the next delivery phase. This will include a process to select delivery partners to help address the capability gaps including those identified by the independent review.

ASX will also establish an industry forum to provide input and receive regular status reporting on the project. This forum will complement the existing Business Committee.

Next steps

Further planning needs to be undertaken by ASX to understand and evaluate the solution design options for CHES replacement and their potential impacts. All stakeholder activity on the project will be paused and the industry testing environment will be closed.

Stakeholders will be updated on progress at ASX's half-year results presentation in February 2023.

ASX continues to engage and work constructively with government and the regulatory agencies, including on any regulatory measures in response to today's announcement.

Release of market announcement authorised by:
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About Tim Whiteley

Tim is an experienced executive in financial services. He has held a number of executive leadership roles across high profile Business and Technology transformations.

From 2000 to 2013 Tim worked at Commonwealth Bank in key technology delivery roles across CommSec, CommSee, Digital and Core Banking Modernisation programs. From 2015 until 2022 he was the General Manager accountable for the delivery of the Customer Service Hub program at Westpac Banking Corporation.

Tim has also held roles as a Director, Technology practice at Boston Consulting (2014-2015) and in Financial Markets trading, treasury and settlement roles at Colonial State Bank, where he started his career.