



ASX

AUSTRALIAN STOCK EXCHANGE



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CHESS

Clearing House Electronic Subregister System

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What is CHESS?

If you buy or sell securities in companies listed with the Australian Stock Exchange there is a requirement to transfer or register title to the same securities.

The Clearing House Electronic Subregister System or CHESS is the computer system that transfers the title or legal ownership of securities between sellers and buyers. At the same time this occurs, CHESS is facilitating the transfer of money for these securities between the CHESS participants, e.g., stockbrokers, institutional investors, settlement agents.

The transfer of securities and money is referred to as **settlement** and CHESS is a world leader in such systems. Settlement is processed on a Delivery versus Payment (DvP) basis. That is, the transfer of both securities and money is simultaneous and irrevocable once the settlement process begins.

In addition to performing settlement, CHESS can electronically register the ownership of your securities on its **subregister**. This registration is secure and is an efficient means to register your holding if you intend to trade your securities.

Hence, CHESS performs two major functions:

- It provides a **Clearing House**, that is a system to facilitate the settlement or clearing of trades in securities; and
- It provides an electronic **Subregister** for securities in ASX listed companies.

Shareholders who purchase or sell securities through a stockbroker should be aware that whilst the transfer of the securities bought or sold occurs through CHESS, the movement of funds between shareholders and stockbrokers does not currently occur through CHESS.

CHESS is operated by ASX Settlement and Transfer Corporation (ASTC), a wholly owned subsidiary of ASX.

What benefits does CHESS offer investors?

CHESS benefits investors by providing a:

- secure
- efficient
- convenient
- seamless and
- cost effective

means of transferring and registering ownership of securities.

Do I have a choice of where I register my shares?

Yes. Shareholders can register the legal title to CHESS approved securities in two ways either:

- on the **CHESS subregister**, which is maintained by CHESS; or
- on **issuer sponsored subregisters**, which are maintained by the company who issued the securities.

Registration in both subregisters is by electronic means. That is, the legal title of the securities is not validated by a paper certificate. However, some securities issued by ASX listed companies, particularly foreign companies still offer a certificated subregister.

The entire holdings contained in both the CHESS subregister and issuer sponsored subregister make up the principal register of all shareholdings for a particular company.

Irrespective of which subregister you hold or intend to hold your securities, shareholders will always need to trade through a stockbroker.

How do I register my shares on the CHESSE subregister?

To have your shares registered on CHESSE, the average investor chooses a stockbroker who is connected to CHESSE to 'sponsor' their access to CHESSE.

To be sponsored on CHESSE, you will need to enter into a formal sponsorship agreement with an approved CHESSE sponsor. This legal agreement sets out the terms and conditions in which the CHESSE sponsor can operate your CHESSE holdings on your behalf.

Sponsored holdings may be held in your name. Once registered, CHESSE shareholders will receive a **Holder Identification Number** or a **HIN**, which is similar in concept to a bank account number. You will receive confirmation of this by a notice sent to you by CHESSE. Your HIN uniquely identifies you as the holder of any securities registered on the CHESSE subregister.

If you wish, you may be sponsored by more than one CHESSE sponsor. However, this will mean that you will have a different HIN for each of your CHESSE sponsors.

What is an issuer sponsored subregister?

Shares registered in an issuer sponsored subregister are held by the company who issues the shares. Typically, a company engages a **share registry** to act on its behalf to carry out the administration of its subregister.

No formal agreement is required with the company to register your holdings on the issuer sponsored subregister.

For each issuer sponsored holding, shareholders will be allocated a unique **Securityholder Reference Number** or **SRN**. This is similar to the HIN that a CHESSE shareholder receives but it is different in that the SRN only has meaning in the share registry's computer system and not CHESSE.

Who controls the transfer and movements on the two subregisters?

If you are sponsored on the CHESSE subregister then your **CHESSE sponsor** controls the movements to or from your CHESSE sponsored holdings.

If you desire to sell your shares (on the ASX) that are registered on the issuer sponsored subregister, then your stockbroker will need to transfer your shares to the CHESSE subregister. You will therefore need to provide your details and most importantly your SRN to your stockbroker in order for the transfer to take place.

Any unauthorised transfer or movements from either subregister is covered by the National Guarantee Fund or the NGF. The NGF is a compensation fund that is available to meet valid claims arising from dealings with stockbrokers, in the circumstances set out in legislation. To find out more about the NGF visit the trustee of the fund's website, www.segc.com.au or phone our customer service number 1300 300 279.

In addition to stockbrokers initiating movements, the share registry, from time to time may adjust your holding on both subregisters. These adjustments are due to the company issuing bonus shares, for example.

If there is a change in your CHESSE sponsored holdings, then CHESSE will report those changes in a **CHESSE Holding Statement** which is mailed directly to your registered address. Your HIN is shown on all CHESSE Holding Statements and notices.

If there is a change in your issuer sponsored holdings, then the particular share registry will report this to you by mailing an issuer sponsored statement to your registered address. Your SRN is indicated on these statements.

What are the similarities and differences between the CHES subregister and the issuer sponsored subregister?

The similarities between the CHES subregister and the issuer sponsored subregisters are:

- Both subregisters are uncertificated (i.e. electronic registration)
- Both will send you a statement when there are changes to your holding.

The differences between the two are:

- For each security that you register on the issuer sponsored subregister you will be assigned a different SRN. Hence, if you own shares in a number of companies that are registered on the issuer sponsored subregisters, you will have a number of SRNs. There is no formal agreement required to have your securities registered on the issuer sponsored subregister.
- If you have securities registered on the CHES subregister, then you will have one HIN for each of your CHES sponsors. That is, one HIN can point to a number of securities owned by you. Your HIN identifies your entire holding that is covered by one sponsorship agreement.

It is worth noting, that if you wish to change your registration name, address, notification of Tax File Number, etc., CHES shareholders only need to contact each of their CHES sponsors, whereas issuer sponsored shareholders will need to contact each share registry for each security held.

Should I hold my shares on the CHES subregister or the issuer sponsored subregister?

When issuer sponsored shareholders wish to sell securities, they advise their stockbroker of their registration details including their SRN. The stockbroker then seeks authorisation to transfer the securities from the issuer sponsored subregister to the CHES subregister. This transfer must be completed in time for settlement or else the stockbroker will incur a fee. The stockbroker may also impose fees on the seller. Any unauthorised transfer from an issuer sponsored holding by a stockbroker is covered by the National Guarantee Fund.

An issuer sponsored holder should ensure that their SRN information is given to the stockbroker at the time a sell order is placed to ensure that the trade settles on time. Presently, the time to settle a trade is referred to as 'T+3' or 'trade date plus 3 business days'. Providing your SRN to your stockbroker at the time of the trade, will provide the necessary lead time to transfer your securities to CHES in time for settlement.

When a CHES sponsored shareholder wishes to sell their securities, their CHES sponsor can directly provide the securities for settlement without the need of a transfer. This is very efficient.

Therefore, investors should consider the following factors when contemplating which subregister they should register their holdings:

- Issuer sponsored shareholders would be inconvenienced by communicating the precise details of their holdings to their stockbrokers and would possibly incur fees if a transfer from the issuer sponsored subregister is not completed in time for settlement; versus:
- CHES sponsored shareholders are not exposed to the risk of incurring fees as their CHES sponsor can directly access their securities.

Another important consideration for an investor who deals through multiple stockbrokers is that the investor may experience settlement delays and possible fees when securities are transferred between different stockbrokers. Thus investors in this category may prefer to have their holdings issuer sponsored.

Are my shares in CHESS safe?

Yes, your shares are safe for the following reasons:

- Transactions on a CHESS holding can only be effected by the CHESS sponsor. By Law the CHESS sponsor must only access your CHESS holding when you have given specific instructions. Your CHESS sponsor is required to authenticate your identity to ensure that it is not someone else masquerading as you. We suggest that you check to see that your stockbroker has adequate security measures in place to ensure that when you call, they can verify your identity by means of a password, a PIN number, or by some other means. Remember, your HIN is akin to a bank account number, rather than a PIN number. You should not disclose your HIN to any other person in the same way you should not disclose your bank account number, unless required by law or SCH Business Rules.
- The CHESS subregister and the actions of CHESS participants, such as stockbrokers, are regulated by the Corporations Law and ASX's Securities Clearing House Business Rules commonly referred to as the SCH Business Rules.
- ASX regulates all CHESS participants to ensure they comply with SCH Business Rules and other legislation. ASX conducts regular CHESS participant audits. In addition, the investor has the added comfort of knowing that the National Guarantee Fund can be called upon to compensate you for any unauthorised transaction against your holding.

- CHESS will independently notify you by mail of any change to your CHESS holdings. As a result, it is suggested that CHESS holdings be registered to your direct address rather than addressed to 'care of' an intermediary to ensure you receive all CHESS notices directly.
- Your CHESS sponsor and CHESS holds an electronic record, or audit trail, of all movements in your CHESS holding.
- CHESS uses several forms of electronic security to minimise the risk of unauthorised access, including message encryption and limiting each CHESS user's access to a specific telecommunications line.

When will I receive CHESS Holding Statements?

When a transaction occurs on your holding, a CHESS Holding Statement will be issued in the first week of the following month. In addition to identifying the CHESS transactions that have occurred, each statement shows the opening and closing holding balances for the period.

Statements are issued directly by CHESS on behalf of each company. Separate statements are issued for each security. A statement is only issued when there has been a transaction during the month.

CHESS does not issue routine statements for holdings of renounceable rights. However, a statement for these securities will be provided if you request it through your CHESS sponsor or the share registry.

Statements can be requested at any time through your CHESS sponsor or the share registry. If you make a request through your CHESS sponsor, then the CHESS Holding Statement that you will receive will contain all the transactions that have occurred since the previous statement. Your CHESS sponsor or the share registry may charge for this service.

Why are notices sent to me?

Notices are sent to shareholders to confirm any changes to their registration details or any change in holding status that is not covered in routine statements. Examples of notices sent by CHESSE are:

- Change of Name and/or Address
- Change of Sponsor
- Takeover Offer Acceptance
- Buyback Offer Acceptance
- Options Cover Reservation

Further information can be obtained from your CHESSE sponsor.

Can I deal with several CHESSE sponsors?

Yes. There are three ways you are able to deal with more than one CHESSE sponsor:

- Establish a separate sponsorship agreement with separate stockbrokers and operate separate portfolios. This way you sell securities through the stockbroker you bought them from. But remember, the more HINs you have the more difficult it becomes for you to keep track of your portfolio.
- Establish sponsorship through one stockbroker. When you trade through another broker, you must advise that broker of your sponsorship arrangements and instruct them to transfer the necessary securities to or from your CHESSE sponsor. You must also instruct your CHESSE sponsor to deliver or receive the securities as a result of the trade. Your CHESSE sponsor may charge a fee for this.
- Appoint a non-broker such as a trustee company or margin lender as your CHESSE sponsor. When you trade with the stockbroker, you will need to instruct the stockbroker to settle into you HIN with your CHESSE sponsor.

Can I move my CHESSE holdings between CHESSE sponsors?

Yes. It's straight forward to move your CHESSE holdings between CHESSE sponsors. Generally, this can be done so that you keep the same HIN.

How do I change my name and/or address in CHESSE?

Simply contact your CHESSE sponsor and provide them with the necessary paperwork. Once the changes have been effected, CHESSE will mail you a notice confirming the changes.

How do I convert shares from issuer sponsored subregister to the CHESSE subregister?

To convert shares from issuer sponsored subregister to CHESSE subregister you:

- Enter into a sponsorship agreement with your preferred CHESSE sponsor and receive your HIN.
- Give your CHESSE sponsor the details of your issuer sponsored holdings, including the Security Holder Reference Numbers (SRNs) of the issuer sponsored holdings. Remember, your SRN can be found on your issuer sponsored holding statements.
- Your CHESSE sponsor will then convert your issuer sponsored holding(s) to the CHESSE subregister. CHESSE will send you confirmation of the changes by mailing you a CHESSE Holding Statement for each security transferred.

How do I convert a CHESSE holding to the issuer sponsored subregister?

To convert your holding to the issuer sponsored subregister you simply ask your sponsor to do this. Your sponsor may charge for this service.

How can I effect an off-market transfer?

If you are sponsored in CHESS and wish to transfer your shares to another party off-market, then you can do this in two ways:

- Instruct your CHESS sponsor to complete the transfer of securities to the other party. Your CHESS sponsor may assess and remit any stamp duty applicable; or
- Instruct your CHESS sponsor to convert the shares to the issuer sponsored subregister. You will then complete an Australian Standard Transfer form to effect the transfer from your issuer sponsored holding.

Contact your CHESS sponsor for further details.

How can I pledge my stock as collateral for a loan?

A number of options are available:

- If the lender is a CHESS participant, then it may act as the CHESS sponsor of your shares you wish to pledge;
- The lender may transfer the shares into its nominee company name; or
- A three-way agreement may be established between yourself, your CHESS sponsor and the lender whereby the CHESS sponsor agrees not to transfer the shares without the lender's authority.

If I have a query about my holding, who do I contact?

For CHESS shareholders, you should first contact your CHESS sponsor. This applies for all types of queries, whether it be querying a transaction on your CHESS holding, a query regarding your registration name and address on CHESS, etc.

If you have a query related to matters handled by the share registry, for example dividend reinvestment participation, rights acceptance, dividend payment instructions, you may need to contact the relevant share registry. However, your CHESS sponsor is advised of any changes to your holding initiated by the share registry and thus may be able to answer your query.