ASX SETTLEMENT AND TRANSFER CORPORATION PTY LTD

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23 December 1996

FAS BUSINESS LAW DIVISION
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Section 22
Acting Assistant Secretary
Securities Markets Branch
Business Law Division
The Treasury
Robert Garran Offices
National Circuit
BARTON ACT 2600

Dear Section 22

I am writing in response to your letter of 11 December 1996 seeking clarification of some aspects of the final request for re-imbursement of expenditure on the CHESS Project from the Securities Industry Development Account.

I apologise for the confusion caused by the two sets of budget numbers; i.e. those given in the spreadsheet headed "CHESS Project Expenditure $'000", and those in the spreadsheet headed "CHESS - Management Accounting Report". These discrepancies are attributable to the fact that the Project extended beyond the targeted completion date, and the fact that ASX Financial Budgets (which are reflected in the Management Accounting Report for the Project), are cast in stone at the time the budget for a particular year is formulated, whereas from the Project point of view, we have effectively reforecast the budget for each reporting period. From a project management point of view, this makes more sense, since it helps to better keep track of the likely expenditure outcomes.

However the approach to ASX financial budgeting meant that the budget for FY 1995/96 was set in February/March 1995 on the basis that CHESS Phase 2 would be implemented in October 1995 (which was the then scheduled completion date), and the budget for FY 1996/97 was set in February/March 1996 on the basis that the implementation would have been completed in April (i.e. there was no development/implementation budget provision for 1996/97).

The discrepancy between the two views of the budget was apparent in our previous request for re-imbursement; i.e. for the period ended 30 November 1995 (see Attachment 1). There for example against "Computer Equipment" there was a budget figure of $761,000 in the Project Report, where as the Management Accounting Report had a budget figure of $1,498,000.

I hasten to add that although the budget figures in the "Management Accounting Report" have had little relevance since the Project went beyond the targeted completion date, the actual expenditures shown there are correct, and are subject to the KPMG audit certification.

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Again referring back to the reports submitted for the period ended 30 November 1995, the Project expenditure report at that time showed an estimated total expenditure (to end April 1996), of $33,935,000. However the Project then suffered a further over-run beyond April 1996 to August 1996; i.e. what was anticipated to be a five month period to Project completion extended to a nine month period. I communicated with Section 22 concerning this delay in letters dated 13 May 1996, and 12 July 1996.

The budget variances for contractors, occupancy, travel, and administration are essentially attributable to the timing variance in the project completion date. The $328,000 expenditure on auditors and legal fees is clearly out of line with the additional time, but does reflect expenditure actually incurred. KPMG queried this figure in the course of their audit, and I attach a copy of my advice to them explaining the reasons for this expenditure (see Attachment 2).

Concerning the RIP (Requirements, Issues and Problems) list, we did not attach the latest list, given that none of the future work will be subject to SIDA funding. However, for your information I attach a copy of the current RIP list (Attachment 3). As you will see there is no shortage of suggestions for future enhancements to CHESS. A small number of enhancements were implemented in Release 2.1 of the CHESS system, which was introduced in November. The next major release of new functions is now scheduled for Release 3.0, in April 1997.

We have two approaches for bringing the securities of foreign domiciled issuers into CHESS. For securities of issuers domiciled in New Zealand, Papua New Guinea, and Bermuda, we now expect that all will eventually come into CHESS directly, in the same way as securities of Australian domiciled issuers. We have been negotiating with the New Zealand Securities Commission for an extended period on this matter, and now await an Order in Council from the New Zealand Parliament which will enable this to happen. For the securities of PNG domiciled issuers, each issuer has to be treated on a case by case basis, with the Registrar of Companies in Port Moresby. Already some securities of PNG companies are in CHESS (for example Lihir Gold and Orogen). The Bermudan authorities appear likely to grant us permission to treat the securities of Bermudan domiciled issuers in just the same way as those of Australian issuers, but the process of negotiation is protracted. For the securities of other foreign domiciled issuers, we hope to persuade the issuers to adopt our CHESS Units of Foreign Securities (CUFS) concept. Again this has to be on a case by case basis. To date two foreign issuers (Ashanti and Vengold), have adopted CUFS.

Concerning the holding of uncertificated securities as collateral by financiers, our preferred approach has always been for the financiers to become non-broker participants in CHESS, and to sponsor persons who wish to pledge the securities as collateral for a loan. This approach has been adopted with enthusiasm by margin lending institutions. However the major banks have been slow to accept the situation. Nevertheless the banks do now appear to be coming to accept the advantages of sponsorship, and I am reasonably confident that this matter is approaching resolution. For your information I attach copies of some recent correspondence with the Australian Bankers' Association and the Australian Competition & Consumer Commission on the matter (Attachment 4).

Yours sincerely

A J Richard

Angus Richards
Managing Director

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