



AUSTRALIAN STOCK EXCHANGE  
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27 November 1996

Mr Ian Searles  
Adjudication Branch  
Australian Competition & Consumer Commission  
PO Box 19  
BELCONNEN ACT 2616

Dear Mr Searles

**LENDING AGAINST THE SECURITY OF UNCERTIFICATED SHARES**

I am writing in response to your letter of 30 October 1996, addressed to Paul Conn, in which you sought advice on the question of CHESSE subposition services in relation to pledging of uncertificated securities as collateral.

CHESSE currently provides subposition services in two specific areas:

- reservation of securities as cover for written call positions in the Australian Options market; and
- reservation of securities in favour of an offeror following acceptance of a takeover, and pending transfer to the offeror once all conditions of the offer have been met.

Through these subposition services the interest of a third party (being either the Options Clearing House or the takeover offeror) in part or all of a holding on the CHESSE subregister is recorded and managed; i.e. the subposition records the interest of third party X in a CHESSE holding in the name of investor A, who may be sponsored by CHESSE participant P.

We have not yet taken further the possibility of extending subposition services to encompass reservation of securities **in a CHESSE holding** in favour of a third party financier who has an interest in a holding through a collateral pledge. We have not done so because no clear demand for such a facility has emerged.

The reason for apparent limited demand is that the subposition facility only addresses part of the problem that financiers have. It is only relevant for holders who are already on the CHESSE subregister, whether as sponsored parties or direct participants in CHESSE. Thus it does not address collateral pledging issues in respect of the 90% of equities holdings that are not on the CHESSE subregister.

In our view the preferred solution for lenders for holding uncertificated securities as collateral lies in them arranging to sponsor the holdings in CHESSE, either in their own right as CHESSE participants, or through nominated third parties who may be CHESSE participants.

We have a continuing dialogue with the Australian Bankers Association on this matter, and if demand for subposition services for collateral emerges, we will develop facilities, subject always to our "user pays" principle that our charge for the service should be related to the cost of providing it.

Yours sincerely



Angus Richards  
**National Director, Markets and Settlement**