



FAXED

AUSTRALIAN STOCK EXCHANGE
LIMITED

ACN 008 624 691

Direct Line: (02) 9227 0837 PO Box H227 Australia Square NSW 2000
Level 7, 20 Bond Street Sydney NSW 2000
MARKETS AND SETTLEMENT - Telephone (02) 227 0000 Facsimile (02) 251 4071

11 September 1996

Mr Ian Gilbert
Australian Bankers Association
Level 42
55 Collins Street
MELBOURNE VIC 3000

By Fax: (03) 9650 1756

Dear Mr Gilbert

CHESS - Collateral Issues

Further to Paul Conn, Michael Barr-David and I meeting with you and representatives of the banks on Friday 6 September, I am writing to confirm my understanding of what was agreed.

As a fundamental point it was agreed that broadly there are two aspects to the main problem the major banks have in adapting to the uncertificated securities environment:

1. Adapting existing equitable mortgage documentation to encompass the concept of CHESS sponsorship; and
2. Procedural and processing workload problems of managing conversion of certificates currently lodged with banks as collateral to sponsored uncertificated holdings in CHESS, particularly if there were to be a rush of issuers choosing to adopt fully uncertificated registers.

It was noted that to seek legislative backing for arrangements under which existing mortgage documentation could be "grandfathered" as sponsorship agreements would be a lengthy process, conceivably involving legislative amendments in each State. However, at the meeting a germ of an idea emerged that might enable a framework helpful to the banks to be established under SCH Business Rules, through the following concepts:

- Potentially a distinct class of "financier" participant with defined minimum powers under sponsorship agreements (i.e. a subset of the powers exercisable by broker and non-broker participants as sponsors);

- Provisions under which existing equitable mortgage documentation could qualify as a CHESS sponsorship agreement for financiers; and
- Appropriate indemnity arrangements to protect the interests of borrowers in respect of their securities holdings.

If feasible, sponsorship arrangements would enable banks to address the problem systematically by progressively converting all pledged securities to uncertificated form. Banks could insulate themselves from the independent timetables of issuers choosing to adopt fully uncertificated registers.

We agreed that we will give Minter Ellison instructions to further investigate the feasibility of the concept of mortgage documentation qualifying as a sponsorship agreement.

We indicated that in our view it would be equitable for the ABA and the Exchange to share the legal costs involved, and you agreed to come back to us on the costs issue. As input to Minter Ellison's work, the banks represented at the meeting agreed to send copies of their existing mortgage documentation to Michael Barr-David of Minter Ellison.

Concerning point 2, we noted that, based on our experience to date, there are two distinct circumstances in which issuers choose to adopt fully uncertificated registers:

- in association with a reconstruction of capital; and
- as a specific decision, unrelated to a reconstruction.

Where a reconstruction or a scheme of arrangement is involved, we do not believe that it is reasonable or practical to require companies to give an extended period of notice. However we agreed that we would progress an amendment to the SCH Business Rules to require issuers to give 90 days notice of impending closure of a certificated subregister in circumstances unrelated to a reconstruction or scheme.

We also agreed that in advance of formal promulgation of such a Rule amendment, which could take up to three months, we would issue a bulletin requesting issuers to comply with a 90 day requirement anyway. Paradoxically, if banks took the sponsorship route and proceeded quickly to convert all pledged securities to uncertificated form, there is a diminished need to require issuers to give a 90 day period of notice.

We also agreed to include in the bulletin a request that, in any notice to shareholders of intention to cease operating a certificated subregister, issuers include a statement asking any shareholders whose certificates were lodged with a bank as collateral, to pass the notice on to the bank.

We agreed that we would provide an advance copy of this bulletin to you. A copy of the draft bulletin is attached.

Our commitment to make amendments to the SCH Business Rules is subject to the caveat that all proposed amendments are subject to approval by the Board of ASX Settlement and Transfer Corporation and the Australian Securities Commission and, if necessary, authorisation by the Australian Competition & Consumer Commission.

We also agreed to look into ways in which banks could be informed of issuers' intentions concerning operation of different types of registers. We currently advise CHESSE participants by way of a "P" series bulletin (as an example, see a copy of P96/183 attached). We also have other bulletin series for registries, issuers and banks (payment operations). Our current annual charge for a bulletin subscription is \$500. Because "P" series bulletins cover many different matters, it may be more convenient if we were to introduce an "F" series of bulletins for financiers. We would appreciate your feedback on this, and, if you favour the approach of "F" series bulletins, some indication of the volume of subscriptions that might eventuate.

Please revert to me as soon as possible if you have any disagreement with our interpretation of the outcome of our meeting.

Yours sincerely



Angus Richards
National Director, Markets and Settlement

Encl.