

FINANCIAL REVIEW

ASX reaches innovation inflection point

Early indications are that the ASX will be stuck at the tail end of the innovation train as it embraces a technology platform that was once the preserve of bitcoin.

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It is 10 years since the ASX board of directors gave its approval to replace the CHESSE clearing and settlement system with a distributed ledger technology (DLT) platform that would have put Australia's equity capital markets operator at the forefront of innovation.

The board was persuaded by then CEO Elmer Funke Kupper's argument that DLT would boost the ASX's already world-leading profitability, allow the market to move to real-time settlement, and rip billions of dollars in costs out of the hands of intermediaries clipping the ticket including brokers, registries and custodians.

Funke Kupper, [who resigned about a month after the board approved his plan for replacing CHESSE](#), was succeeded by Dominic Stevens, who could not make the visionary DLT idea a reality.

Helen Lofthouse succeeded Stevens and reset the CHESSE project with an end date of 2029, but could not change the organisation's insular and defensive culture. She announced her resignation in February, to leave in May, and chairman David Clarke is searching for a new CEO.

Now, after a lost decade of CHESSE replacement technology stuff-ups, global exchanges and regulators are entranced by the prospect of a DLT-led transformation of financial architecture using tokenisation – the digital representation of financial assets and liabilities issued and managed on a blockchain.

Early indications are that this time around, the ASX will be stuck at the tail end of the innovation train. It is so overloaded with regulatory obligations, has such a drawn-out timetable for its new version of CHESSE and is so weak at long-term strategic thinking that it will not be able to contemplate fresh tech initiatives.

Judging from the reports published by the Global Financial Markets Association, the Bank for International Settlements, the International Monetary Fund and our own Digital Finance Co-operative Research Centre, there is universal enthusiasm for a technology platform that was once the preserve of bitcoin.

The IMF report hailed the benefits for investors, asset managers and custodians from real-time atomic settlement. It would collapse multiple stages of the traditional financial value chain into a synchronised process.

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But it warned central banks and securities regulators that “in tokenised systems, transactions are executed on shared ledgers spanning multiple jurisdictions, allowing assets, liabilities, and collateral to move across borders at machine speed and without a clear geographic anchor”.

The DFCRC report says that modernising financial system infrastructure through tokenisation and DLT could [bring \\$24 billion in annual benefits to the Australian economy](#) including \$10 billion from more efficient trading, settlement and capital allocation in financial markets. But the DFCRC is pessimistic about this happening.

It says the key barriers to achieving economic gains include uncertainty regarding licensing frameworks for tokenised financial markets, legal treatment of tokenised assets, industry co-ordination and access to trusted programmable settlement assets.

Progress is being made on the regulatory front. The Australian Securities and Investments Commission and the Reserve Bank of Australia are working with the private sector to test wholesale tokenised asset markets while utilising digital money.

ASIC will hold an industry roundtable in May to discuss the barriers to implementing digital infrastructure in financial markets.

ASIC chairman Joe Longo is proud of the fact that FCX is one of the first companies in the world to be licensed to offer the atomic clearing and settlement of tokenised private assets.

“People have a go, sometimes it works, sometimes it doesn’t.”

— Joe Longo, ASIC chairman

He last month told the Parliamentary Joint Committee on Corporations and Financial Services that he wants ASIC to do everything it can to support innovation in capital markets.

“People have a go, sometimes it works, sometimes it doesn’t and sometimes it’s regarded as commercially viable, sometimes it isn’t,” he said.

“But I’m convinced from my own conversations I’ve had and from my foreign travels talking to foreign regulators and asset managers and market participants, that this is the area we need to be thinking about and focused on.”

However, there is good reason for pessimism in relation to the equity capital markets because the implementation of tokenisation and DLT hangs on the ability of the ASX to implement it at the same time it is under immense regulatory pressure to deliver stage one of its CHES replacement by April 20 and phase two in the next three years.

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Andrew Jones, who is acting group executive, securities and payments at the ASX, says he is confident DLT and tokenisation can be implemented by the ASX alongside its implementation of CHES replacement.

“One of the fundamental requirements of the new software that we’re installing was that it can bridge to any tokenised model,” he says.

“It’s absolutely not off the agenda for us, in fact it was one of the criteria that we used in selecting our vendor that they could bridge to whatever tokenisation models are going to be successful.”

Jones says the ASX is looking for partners that can bring the tokenisation technology and expertise to the ASX when it builds the bridge to tokenisation, and this could include FCX. Jones was one of several financial markets executives to meet representatives of Robinhood Markets recently in Sydney to talk about tokenisation.

He says the ASX can apply the lessons learnt from the failure of the CHES replacement that cost shareholders \$250 million.

“We learnt a huge amount from our last project around tokenisation and distributed ledger and we really have a good idea about what works and what doesn’t work now,” he says. “And we do actually have the ability to back the right horse this time and to jump on something that will work.”

Lost its progressive spirit

His optimism is not shared by FCX chief executive David Ferrall, who says that while the ASX was probably five to seven years ahead of its time when it opted for DLT in 2016, it has lost its progressive spirit.

He says in an opinion piece to be published later this week that CHES has not materially changed in three decades and its T+2 settlement infrastructure is likely to be obsolete before it is implemented in 2029.

“A dual-track approach is needed, one that completes the CHES upgrade while simultaneously enabling a more progressive solution to be built alongside it, with the potential to supersede it over time.”

I am pessimistic about the ASX bringing DLT and tokenisation to Australia’s capital markets in a timely manner because of the conclusions drawn about the company’s tech capabilities by Rob Whitfield, Guy Debelle and Christine Holman, who this month [delivered the final report of their inquiry into the ASX](#).

Whitfield, Debelle and Holman found that the ASX’s FY28 strategy “is focused mainly on maintaining and incrementally improving existing infrastructure with an emphasis on operational efficiency and regulatory compliance”.

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They found the ASX has “not provided an integrated view of how technology, risk, capital and operations will be configured to deliver resilient markets into the future. ASX has recently recognised deficiencies in its enterprise technology strategy and is now taking steps to address this, including aligning it to its business strategy.”

There is a possibility that the ASX’s inability to embrace DLT the second time around will not matter if the buyer of CBOE Australia, which has about 20 per cent market share of cash traded equities, is a financially strong global player.

The new owner will have to deal with the same entrenched barriers to competition that contributed to the ASX’s hubris and insularity. But if it brings an innovation mindset that favours DLT it could use tokenisation to disrupt the financial architecture and leave ASX in its wake.