# Business Committee

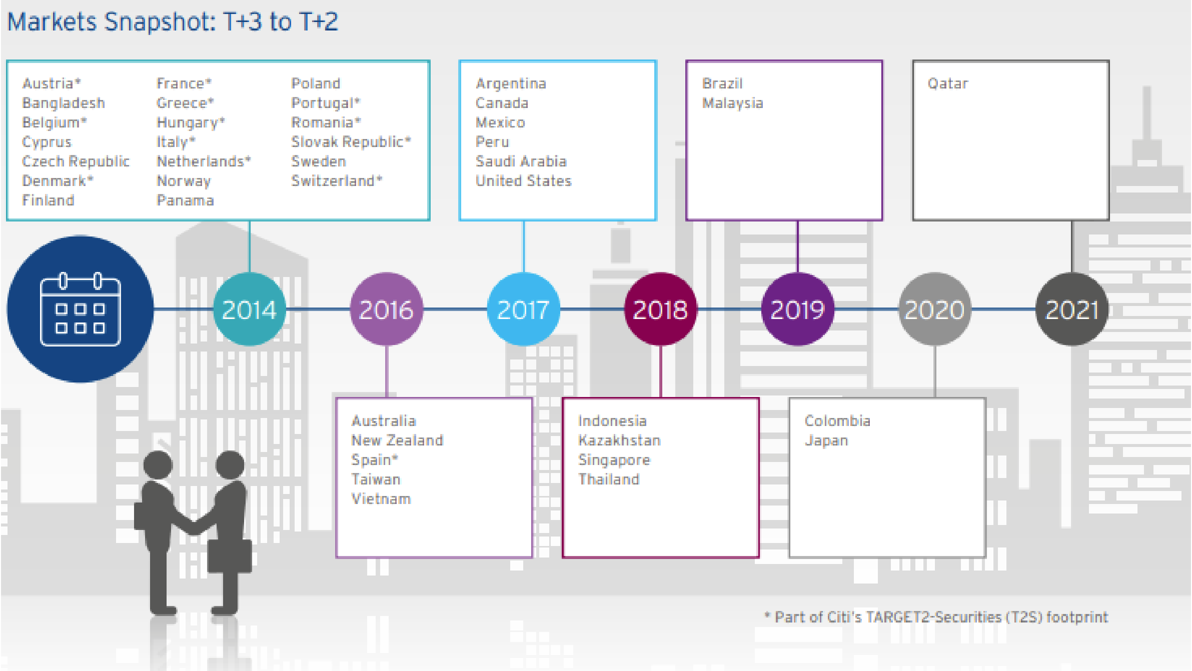
Market trends & insights

8 December 2021

# Member discussion on settlement cycles

# Current state

- Last decade - global push to move from T+3 to T+2 settlement
- Australia/New Zealand markets – coordinated change for equities and debt, implemented March 2016
- A number of markets already support T+0, T+1 for certain products
- Key considerations and benefits
  - Operational changes – improved efficiencies
  - Reduced risk, lower capital and margin costs
  - For example, move to T+2 in Australia reduced daily cash margins by 25 to 30%




Source: Citi white paper Securities Services Evolution, available here: http://citi.us/3BdSfNn

# Why is settlement compression topical again?

**Trading volatility:**

Volatility experienced during global pandemic, and the implications from ‘meme’ trading (e.g. GameStop) in the US

> While a trading & pricing issue, there are post trade implications

> Robinhood chose to restrict trading in stocks to avoid volatility related risk management impacts

**Post trade implications**:

> Trading volatility results in potential unplanned clearing margins spikes

> Call for risk reduction levers – reduce counterparty and time risk

> US proposal to move to T+1 H1 2024,  citing participants support to realise capital and operational efficiencies, benefit from significant risk reduction, lowering of margin requirements

> Avoid any post trade induced restrictions on trading activity

**Trends in technology, digital assets and digital transformation** (better technology has typically been applied to trade platforms/product, lag on post trade development)



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# Catalysts for change, potential benefits

- Investments in automation and availability of real time data could negate risks with shorter settlement cycles
- A number of FMIs/CSDs that have recently or are replacing technology have capability and flexibility to adopt optionality in settlement or shorter settlement cycles
- Desire to align with other markets (standardisation)
- Settlement outcome for buyer/seller received quicker, therefore more opportunity for reinvestment
- For participants - reduces time based settlement risk - lowers clearing risk, therefore clearing margins etc.
  - FMI/CSDs predict a 1 day reduction in settlement could reduce margin calls from 40 to 60% (source: Citi paper)
- More efficient use of capital



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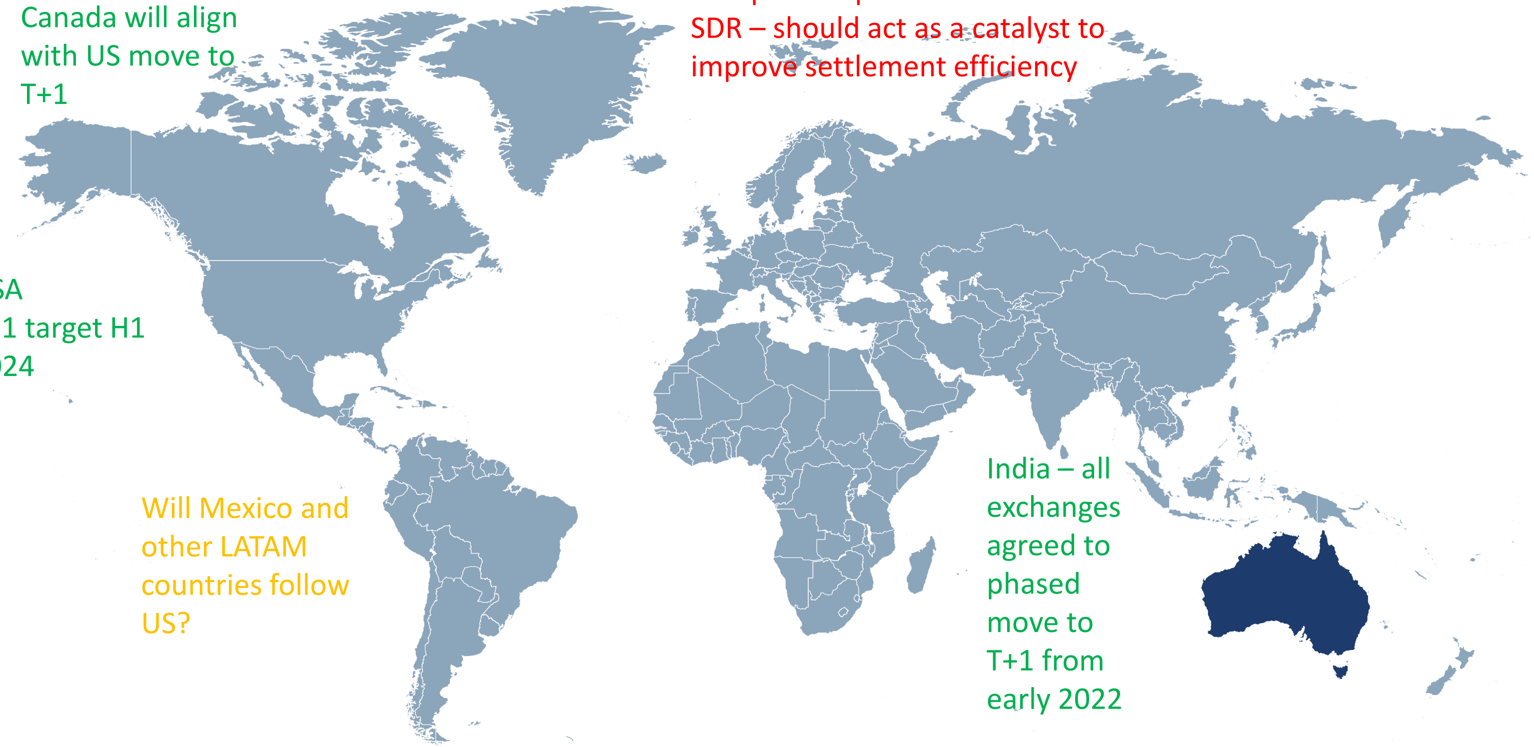
# Markets considering a change



Canada will align with US move to T+1

USA
T+1 target H1 2024

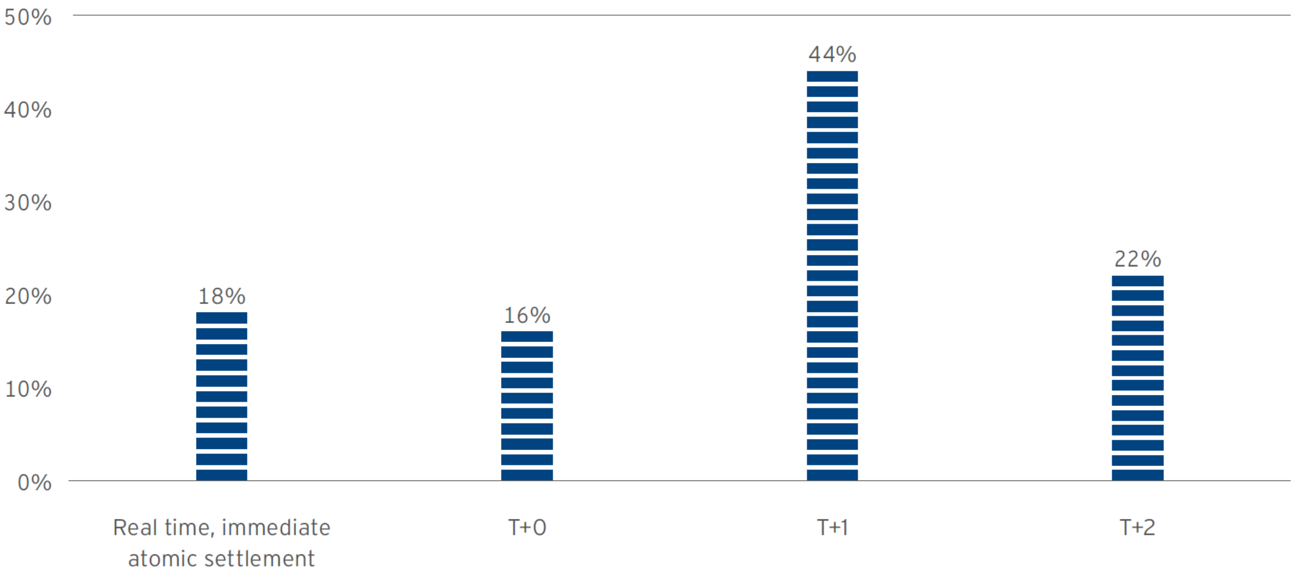
Will Mexico and other LATAM countries follow US?

Europe – no plans – focus on CSDR-SDR – should act as a catalyst to improve settlement efficiency

India – all exchanges agreed to phased move to T+1 from early 2022

# Global market participants' expectation of change

Citi's recent survey of market participants reveals what they expect to be the prevailing settlement timeframe for equities in five years time




Source: Citi white paper Securities Services Evolution



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# CHESS Replacement consultation on settlement optionality

September 2016 – consultation paper extract

**Provide settlement period choices**

While ASX will maintain T+2 as the default settlement period in the replacement of CHESS, the system will have the capability to offer customers shorter settlement periods. Market participants could be offered the ability to choose to settle their trades intraday, end of trade date or T+1. Settlement optionality may provide participants with greater ability to reduce exposures and associated margin. The potential implications for holding capital at a participant level are yet to be determined.

# CHESS Replacement consultation on settlement optionality

## Consultation responses (incl. supplementary questionnaire) – key themes

Generally, respondents expressed a desire for further information and understanding

**Pros**

- Some could see clear benefits for investors, especially for sellers realizing earlier receipt of cash
- Some could see benefit in taking risk out of the system earlier and the potential implications for margin and other risk associated obligations

**Cons**

- Some participants couldn't see a net benefit for themselves
- Settlement optionality could have trade-offs – i.e. impacts to settlement liquidity, increased operational complexity (vs. efficiencies of single batch settlement), reduced netting efficiency, reduction in stock inventory and therefore more likely fails; funding challenges
- Several respondents also identified business opportunities in providing securities lending or liquidity channels to support flexible settlement periods
- Some saw a move over-time to T+1 settlement as delivering these benefits without the greater complexity that offering a range of settlement choices might involve. Others expressed interest in exploring options beyond a single batch settlement model, for example the ability for line-by-line settlement after the normal batch settlement on a day.

# CHESS Replacement scope

**Day 1:**

> T+2 settlement finality maintained

> Includes new line by line DvP settlement functionality (non batch)

**Post Day 1:**

> Settlement optionality deferred to post CHESS Replacement go live

# Considerations for Australian market

> How will the US move to T+1 impact Australian participants?

> Are the themes provided in previous consultation responses still valid?  Is there a different appetite for change now, why?

> Noted distinction between
  - Clearing (benefits) vs. settlement participants
  - Domestic vs. international participants and issuers
  - FMI readiness vs. its customers (relative technical capabilities)

> If we consider a move – what are the options - to have finality (e.g. T+1) or optionality (any time up to T+1 or T+2) or a combination?

> Does our time zone, and broader customer set (e.g. global custodians) influence whether T+1 is achievable?

> How could we create certainty in such a model and not lose current benefits of efficiency (like netting, low fail rates)?

> Other considerations:
  > Shorter settlement optionality would require service arrangements for securities and liquidity funding
  > Does a dematerialized market help? Differences between Australian market (name on register) to other global markets.
  > Opportunities on DLT, cash on ledger? Other tech?
  > Regulatory
  > Operating hours



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# Next steps

> Do we continue the discussion, how (e.g. workshops)?

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# Electronic CHESS Holding Statements

**Launch Monday 13 December 2021**

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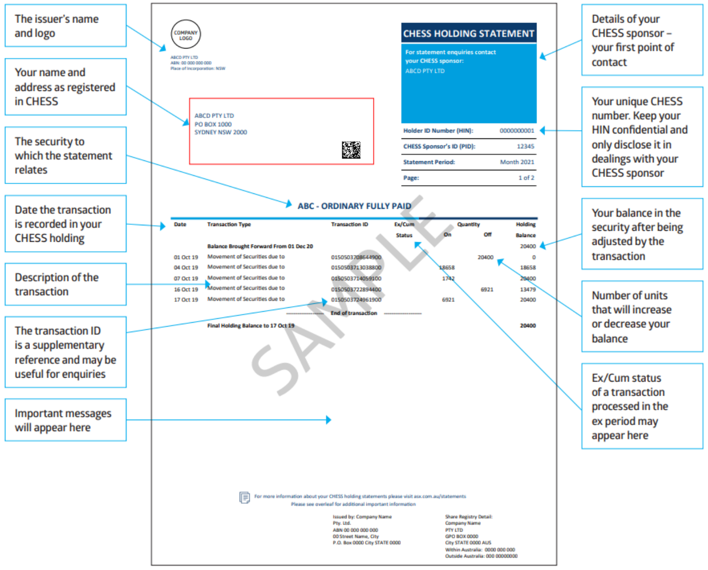
# Electronic CHESS Holding Statements

## Go live Monday 13 December 2021

- Go live 13 December 2021
- No charge for participants sending emails to CHESS via an EIS 203 message
- No charge to issuers for CHESS statements delivered electronically
- Investor portal allowing secure downloading of statements
- New design for electronic statements (print design to change in first half of 2022)
- At least one participant will begin opting customers in on Monday with many more looking to go live early next year
- Investors must opt in via their sponsoring participant
- For more information see asx.com.au/statements

## How to read your CHESS holding statement

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