



28 October 2013

ASX Limited
20 Bridge Street
Sydney
NSW
2000
Attention: Steven Ball

Australian Custodian Services Association – Submission on ASX Consultation Paper: “International Securities Identification Numbers / Removing the ASX Code”.

The Australian Custodian Services Association (“ACSA”) is the peak industry body representing members of Australia’s custodial and administrator sector. Collectively, the members of ACSA hold securities and investments in excess of AUD\$1.8 trillion in value in custody and under administration. Members of ACSA include BNP Paribas, Bank of America, Citi Securities & Funds Services, National Australia Bank Asset Servicing, JP Morgan, HSBC, State Street, RBC Investor Services, and Northern Trust.

This submission is intended to provide the Australian Securities Exchange (“ASX”) with the views of ACSA members on the issues raised by ASX’s Consultation Paper: : “International Securities Identification Numbers / Removing the ASX Code”

General comments on the proposal

ACSA believes that the use of the ASX ticker within the ISIN numbering scheme is a useful feature of the Australian market. Whilst automation within the securities industry has reduced the volume of manual instruction processing, the inclusion of the ASX ticker in the ISIN provides a quick and simple way to sight verify a security where timely manual intervention is required.

In looking at the potential solution to the issue of availability and recycling of ISINs, ACSA believes that other numbering options could be utilized by the ASX. This could include simple solutions, such as the addition of a number following the ISO country. For example, if the ASX ticker for ABC was reused the ISIN could change from AU000000ABC7 to AU100000ABC6. This would allow the ASX to be in-line with international use of ISINs and continue the practice of maintaining the ASX ticker in the ISIN.

Rule 4.8 of the ISO 6166 guidelines states that a name change of a company should not result in the change of an ISIN. The ASX will continue to be in non-compliance with this following the proposed change. For example, where company ABC changes its name to XYZ, under the current scheme the ISIN changes from AU000000ABC7 to AU000000XYZ2. Under the proposed regime the ISIN would also change but from AU000000ABC7 to AU0000000010. Only if the company underwent a subsequent

name change would the ISIN not change. We do not believe that the occurrence of companies changing their names multiple times is a regular occurrence within the Australian market.

Given that it is very unlikely that all current listed companies on the ASX will undergo a name change, the proposal would also result in a permanently split ISIN numbering system. We do not believe that it is in the best interests of the market to introduce this change.

Any other feedback or suggestions relevant to ISINs

Whilst the consultation paper does not cover debt securities we believe that there are significant market efficiencies which could be gained by mandating changes to the issuance of discount security ISINs.

Austraclear, and the ASX as the numbering agency, allocates ISINs to discount securities based on the parcels in which they are issued. A common occurrence is for additional (top-up) securities to be issued above the initial number of discount securities offered. Where this occurs on the same day as the initial issuance, the issuer has the ability to allocate the shares to the same ISIN through the top-up functionality within the Austraclear system. As the use of this functionality is optional some issuers do not use it which leads to securities which have the same issuer, terms and maturity date being allocated on separate ISINs. As multiple top ups can occur, this can result in scenarios where the same discount security is issued on multiple ISINs, with up to five ISINs seen for the same security. The process is further complicated by the fact that ISINs are not created by the ASX until after the issuance has occurred. This results in fund managers instructing settlement of securities without a valid ISIN. In many cases the custodian does not become aware of the real ISIN until the issuer places their trade for settlement in the Exigo system. This end-to-end process is highly manual and inefficient for custodians and the broader market, creating operational risk and uncertainty, and straining the system by requiring staff from the Custodian, Investment Manager (IM) and Issuer to make ad hoc calls between each another, in order to correctly identify and therefore process each of their trades in time.

ACSA believes that the introduction of a set formula for the creation of discount securities ISINs would prove to be beneficial to the whole market. For example the ISIN could be derived from a combination of the issuer, issue date and maturity date. By utilising a formula to generate the ISIN the dependency on the ASX to create new ISIN is removed. Consequently, fund managers could instruct custodians using the correct ISIN, who would in turn be able to process instructions to settle in Austraclear on a 'straight through processing' (STP) basis, there being only one ISIN per discount security issuance. This approach would significantly reduce costs and risks in the system, bringing this market into line with best practice. In the longer term, by removing these strains and allowing greater market efficiency, higher trade volumes will be attracted into this market.

The impact, if any, a change to the ISIN allocation process would have on your internal systems and processes

Whilst each member custodian utilizes different platforms, ACSA does not believe that the proposed change in ISIN structure would have any material impact to internal systems and developmental effort.



Where custodians, brokers and other market participants process client instructions manually, the ASX ticker within the ISIN is useful for security identification processes. This is particularly relevant in the areas of Trade Settlement and Corporate Action instructions that fail STP processing and require manual repair. The proposed new ISIN structure has the potential to increase processing time for manually processed instructions and may increase the risk associated with such transactions.

Indication of the time required to make any necessary changes in response the new ISIN allocation process

In order to ensure internal processes are updated to incorporate the proposed change a six month notification period of any change would be welcomed by ASCA members.

Yours faithfully,

A handwritten signature in blue ink, appearing to be 'M. Carpenter', written over a light blue horizontal line.

Martin Carpenter,
ASCA Director and Executive Sponsor for the Custody Operations Work Group
martin.carpenter@citi.com
+612 8225 2411