

Broadridge (Australia) Pty Ltd

Response to:

Shortening the Settlement Cycle in Australia: Transitioning to T+2 for Cash Equities

Request for Comment

Prepared for:

Australian Securities Exchange
("ASX")



Broadridge®

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EXECUTIVE SUMMARY

Executive Summary

Broadridge welcome the opportunity to comment on the current discussion around the possible move to T+2.

The context of this discussion has global implications but is also very relevant to the local financial community in Australia, where many of Broadridge's clients operate.

Broadridge support any market initiative which will have a positive impact on the general efficiency of the market and be of benefit to the operators and users of that market.

Broadridge intend to work closely with our clients and industry representatives to consult and advice based on our experience in Australia and other global markets.

Included in this document are the responses from Broadridge to the questions raised on the consultation paper. Any question that is not relevant to Broadridge is omitted.

Company Overview

With revenues of over US\$2 billion, delivered by over 6,000 associates located across more than 40 offices around the world, Broadridge provides an integrated portfolio of financial system applications and services tailored to meet each client's unique and evolving needs.

Broadridge is strategically aligned to provide institutions in the financial services industry with state-of-the-art transaction processing infrastructure and real-time information delivery services to streamline their operations and improve business efficiencies, enabling these firms to focus their resources on activities that increase their competitive advantage.

Broadridge has an extensive client base within the Asia Pacific region. Our long-standing presence in Asia brings crucial local knowledge and experience to Asian projects.

Consultation Question Responses

The following responses have been provided in relation to the questions raised in the ASX paper. The responses are provided by Broadridge (Australia) Pty Ltd. Only questions relevant to Broadridge have been addressed in the following responses:

Q1 Do you agree with the expected benefits from the introduction of a T+2 settlement cycle for cash equities? If so, please outline the key benefits to your organisation.

Generally Broadridge agree with the benefits as listed. We support initiatives which promote more efficient financial markets.

Broadridge do not envisage any direct benefits from this change within the existing broker-dealer client base. However the introduction of T+2 may lead to additional off-shore broker activity and focus on the Australian market and this may lead to additional future and intangible benefits for Broadridge.

Q3 Do you expect the costs associated with the implementation of T+2 to be relatively small, moderate or significant for your organisation? Can you provide a cost range for your implementation of T+2?

Broadridge provides a range of solutions and services in the Australian market place that includes providing clearing and settlement participants with direct connectivity to CHES as well as to institutions that use custodial services (who generally communicate directly with their custodians via SWIFT). Given the exact details of how T+2 are to be implemented it is not possible to provide any assessment of the impact to Broadridge. Given the configurable nature of settle date offsets and scheduling of tasks within our systems the impact to Broadridge is expected to be low. The direct cost to settlement participants are expected to be higher based on testing and changes to settlement procedures within their organisation.

Q4 Do you consider that the potential net benefits expected from the introduction of a T+2 settlement cycle for cash equities warrants its introduction in the near term? If so, do you consider that:

a. an implementation date in Q1 2016 should be targeted?

Broadridge do not hold a view on the exact date of implementation for this change, but would advise that a change of this nature, without any significant system change could take clearing and settlement participants 6-12 months to implement, without taking into consideration any other work commitments and priorities.

b. an earlier implementation date in 2015 is feasible for all industry participants and should be considered? If so, what implementation timing do you think should be targeted?

Please refer to our prior response.

Q5 To what extent do you currently utilise an automated centralised trade matching system? Please indicate which system you use.

Broadridge provide the PROActive Matching suite of products that provides in-house trade matching.

Broadridge solutions interface to OMGEO CTM and IRESS (IOS) and to a lesser extent usage of the SWIFT GETC for Australian Equity matching.

Q6 What percentage of trades are verified manually by your organisation? If you use manual verification processes, what is the main reason for doing so?

Broadridge clients do not hold typically hold up Australian Equity trades before being released however the capability does for a variety of business reasons, typically for commission checks.

Q7 What is the percentage of trades where affirmation is completed on T+0?

Broadridge estimate that the vast majority of trades are affirmed either same day or before the commencement of business the next day.

Broadridge are not planning to release any specific data to the market around rates of affirming - our clients may wish to contribute their own individual statics.

Q8 What are the main reasons for failure to achieve SDA?

In our normal experience we do not get exposed to affirming periods of longer than a day; however Broadridge would consider the following as reasons for delay to SDA.

- Where an overseas client is involved (specifically end clients in the US).
- Where a broker/commission dispute is raised and cannot be resolved the same day (and to a lesser extent where an early settle date has been agreed but not actioned by either party).
- Where a Fund Manager may elect to re-distribute a block after affirming the following day.
- Where the Australian client/broker may not have an integrated STP affirmation solution.
- Where the client or client's agent does not use a trade affirmation solution which communicates with that of the broker.

Q9 In what timeframe could your organisation be reasonably expected to achieve an SDA rate of over 90%?

This question is not directly relevant to Broadridge but we believe that our solution can allow brokers to achieve very high levels of turnaround and consistency on trade affirmation.

Q10 What is the expected investment required for your organisation to implement a T+2 settlement cycle? Do you agree the changes required to implement a T+2 settlement cycle are largely configuration and behavioural changes rather than wholesale system changes?

The outline of our potential changes impact have been referenced in Q3.
The second part of this question based on what we currently believe and expect, we would say "Yes"

Q17 What are the main internal processes and procedural changes that your organisation would need to introduce to ensure T+2 and batch cut-off settlement deadlines are met? If you do not think moving to a T+2 settlement cycle is feasible with the existing 10.30am settlement batch cut-off, do you think delaying settlement batch cut-off to 11.30am or 12.00pm would provide sufficient additional time to assist in facilitating timely settlement? If so, would the benefits exceed the cost of the flow-on impacts (for example, the likely need to change payment provider deeds and delaying the ASX settlement authorisation notification, payment provider authorisation, and registration cut-off times, together with delaying participant back office processing related to post settlement activity)?

Broadridge would not likely need to make any procedural changes, based on the details currently available.

There does appear to be some room to move the settlement window; however this time is normally reserved as contingency for delayed settlement processing, and as such may have an impact on typical post settlement activity.

Q18 What are the main internal processes and procedural changes that your organisation would need to introduce to ensure later batch cut-off settlement can be supported, including internal funding arrangements and operational resource availability?

From a vendor perspective if the settlement time is changed then we do not envisage any issues for our business. Our clients processing and procedures are likely to adjust as a result of a change in settlement time.

Q23 Do you think further consideration should be given to using CHES's existing RTGS

functionality to manage late settlements? What would your organisation need to do to use CHES's existing RTGS functionality? What would your payment provider need to do to use CHES's existing RTGS functionality?

Broadridge do not have a view on using CHES RTGS.

CHES RTGS is not in use today. Broadridge would need to assess how the future live solution would be integrated with brokers and the payment providers.

Q24 Do you think further consideration should be given to running an additional settlement batch to manage late settlements? How do you expect an additional settlement batch would impact your organisation, including the potential cost impact.

Running additional settlement processing would fundamentally change the current model, and place additional work requirements on the participants. Fragmentation of the batch will also mean that TNSC netting would reduce efficiency. The impact on cash processing and general funding would require additional movements and processing operations and therefore would not be as efficient as today.

Q25 If running an additional settlement batch introduces material additional costs or regulatory considerations for industry stakeholders or the ASX, would this change your response?

Any additional cost increases affect the overall market efficiency and attractiveness of Australia as a location that competes for global business.

Q27 What role do you think that investor education can play in minimising the potential for increased settlement failure following the introduction of a T+2 settlement cycle? Do you think there is merit in ASX working with the industry to undertake investor education in relation to the transition to T+2?

Broadridge support investor education initiatives. A lot of Australian investors are based offshore. As a global service provider Broadridge may be able to assist in reaching the global community if this is a requirement.

Q28 Are there particular corporate action events for which the adoption of a T+2 ex period creates significant difficulties?

If the shortening of the settlement cycle causes more trades to fail then there would be an impact on corporate actions generally and lead to a growth in a claims processing market. More complex election processing corporate actions are a greater risk to businesses and typically have a bigger impact when there are other issues.

Q29 Do you think that a T+1 settlement cycle is achievable to facilitate trading in special markets?

T+1 in special market may work, but would require the overall support of the ASX user community within and external to Australia.

Q30 Do you support the same approach to the timing of trade netting being taken in a T+2 settlement cycle (that is, settlement date minus two business days (T+0) to allow the netted settlement obligation positions to be available to all participants one day prior to settlement)?

Generally Broadridge do support such a move in the event of the implementation of T+2.

Q31 Will there be significant impacts for your organisation if trade netting was to occur on T+0 if a T+2 settlement cycle is introduced?

On the assumption that T+0 means the evening of T then Broadridge would not expect any significant impact of the introduction of T+2 settlement.