Shortening the Settlement Cycle in Australia:

Transitioning to T+2 for Cash Equities

Response to ASX Consultation paper

Consultation Questions
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.

Not Applicable

Q2 What level of reductions in cash market margin and liquid capital requirements do you expect for your organisation from the introduction of a T+2 settlement cycle? Please indicate if you wish this information to remain confidential to ASX and the regulators, RBA and ASIC.

Research by GBST on likely effects on liquid capital and cash market margins indicated:

- *Reductions in counter party exposure would reflect the reduced value of outstanding transactions under a T+2 cycle. The reduction would be greatest for institutional brokers with high levels of DVP settlements; reductions for retail brokers would be reduced due to the offsets for sponsored stock and CMT cash reservation already available under the rules.*
- *Cash margins should reduce by approximately 20% to 30% to reflect the lower value of unsettled obligations.*

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?

Unless the actual introduction includes significant changes to existing rules and procedures GBST does not expect to incur or pass on significant costs for implementing T+2 for our clients.

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?
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?
c. sequencing the transition to a T+2 settlement cycle with other markets is important, noting that EU member states will be required to operate a T+2 settlement cycle from January 2015?

NA

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

GBST systems currently support the following ETC services in Australia:

- *OASIS CTM & Global Direct*
- *IRESS ETC.*

If requested by clients the following systems could be implemented:

- *SWIFT GETC*
- *FIX.*

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?

NA

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

NA

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

NA

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

NA

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?

Implementation of T+2 in GBST applications would be a configuration change except for:

- *Any changes clients wish to make to the layout or content of their confirmation documents.*
- *Any changes to liquid capital reporting and cash margin monitoring applications required to implement changes in the rules resulting from implementing T+2 (i.e. – if there were changes to the timing rules for transactions it would require minor changes to implement the new requirements).*

Q11 Please indicate the most significant reason for a delay in the release of settlement instructions to the market?

NA

Q12 What are the key reasons for delaying the matching of settlement instructions until late in the afternoon of T+2 or in the morning of T+3?

NA

Q13 Are investor location and time zone differences the main driver for delayed settlement instruction matching? Please indicate the main jurisdictions where delays are common.

NA

Q14 Should the ASX require continued publication of settlement instructions so that they cannot be removed after initial publication and potentially delay the opportunity to match settlement instructions?

NA

Q15 Should the ASX consider enriching message information to facilitate more timely settlement instruction matching?

NA

Q16 Do you think that the introduction of a T+2 settlement cycle is feasible with the existing 10.30am settlement batch cut-off? Please state reasons for your view. If you act on behalf of foreign investors, please indicate the percentage of current trading volumes executed by foreign clients in Asian, US and European time zones.

NA

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)?

NA

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?

NA

Q19 Would extending the CHESS system start or end of day times assist with achieving timely settlement in a T+2 settlement cycle? For example, would it assist with off-shore processing?

NA

Q20 What are the key drivers for settlement failure? Is the lack of access to stock borrowing arrangements or availability of stock a significant driver for failed delivery?

NA

Q21 Please indicate whether you believe the continuation of the current regime and the automatic close-out requirement will provide the appropriate incentives for timely settlement in aT+2 environment.

NA

Q22 Should the current close-out regime be changed to settlement date +1 (T+4) instead of settlement date +2 (T+5) with the introduction of a shortened settlement cycle?

NA

Q23 Do you think further consideration should be given to using CHESS's existing RTGS functionality to manage late settlements? What would your organisation need to do to use CHESS's existing RTGS functionality? What would your payment provider need to do to use CHESS's existing RTGS functionality?

Based on previous development estimates implementation of CHESS RTGS functionality would be expensive. If a non-batch DVP capability was required the extension of the AUSTRACLEAR DVP facility may offer a better alternative given most participants already have AUSTRACLEAR access.

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?

NA

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?

NA

Q26 Do you have other suggestions for addressing late settlements? Are you able to quantify whether late settlements are a significant issue for you? In your view, is the current mechanism – moving securities free-of-payment through CHESS while moving cash separately – sufficient?

NA

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?

NA

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

No

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

Yes, providing that trades include the relevant settlement date.

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)?

Yes

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?
NA

Q32 Do you expect a significant impact to securities lending activity due to the introduction of a shortened settlement cycle? If so, please outline the expected impact?

NA

Q33 Are there any significant additional client or business risks that have not been identified in this paper?

No, the paper covers the issues comprehensively.

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