

ASX Settlement Non-Business Days

Policy Review

CONSULTATION PAPER

MARCH 2016



Invitation to comment

ASX is seeking submissions on ASX Settlement Non-Business Days – Policy Review by Monday, 11 April 2016. Submissions should be sent to:

E regulatorypolicy@asx.com.au

Office of General Counsel ASX Limited 20
Bridge Street Sydney NSW 2000

Attention: Steven Ball

ASX prefers to receive submissions in electronic form. Submissions not marked as ‘confidential’ will be made publicly available on ASX’s website.

If you would like your submission, or any part of it, to be treated as ‘confidential’, please indicate this clearly in your submission. ASX is available to meet with interested parties for bilateral discussions on the ASX Settlement Non-Business Days – Policy Review.

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Executive Summary

ASX is reviewing the method used to determine ASX Settlement 'non-business' days and is inclined to align its methodology with The Reserve Bank of Australia's *Reserve Bank Information and Transfer System (RITS)* availability. The practical impact of such a change would see a small reduction in the number of ASX Settlement Non-Business days. Given the 2016 settlement calendar has already been set any change in practice would not take effect before 2017.

ASX Settlement typically declares 'non-business' days as a result of public holidays declared by either the NSW or Victoria Governments. The ASX Settlement 'non-business' days under review are days other than when the ASX is closed for business, such as a national holiday, or the Queen's Birthday public holiday. Examples include, Labour Day, Melbourne Cup Day and the NSW Bank Holiday. It should be noted that in 2015, in response to the Victorian Government designating a public holiday on the Friday before the AFL Grand Final, ASX Settlement decided not to follow previous practice to declare an ASX Settlement Non-Business day. ASX Settlement recently released the 2016 settlement calendar and confirmed it would take the same approach to treat that holiday as a normal settlement day this year.

RITS is used for settlement across Exchange Settlement (ES) accounts for payment obligations between banks and other institutions approved by the Reserve Bank. ASX Settlement is an ES Account holder¹ and operator of the *Clearing House Electronic Subregister System (CHES)* which is a feeder system approved by the Reserve Bank for the purposes of performing settlement.

RITS is available to Members for settlement across ES Accounts on days when banks generally are open for business in NSW or Victoria. RITS is closed on weekends and on the following public holidays where they are observed in both NSW and Victoria: New Year's Day, Australia Day, Good Friday, Easter Monday, Anzac Day, the Queen's Birthday, Christmas Day and Boxing Day.

Preliminary soundings with key stakeholders suggest that there may be operational and capital efficiencies for clearing and settlement participants in changing the current methodology to align it with the Reserve Bank of Australia's payment system criteria for 'non-business' days which only occur when both NSW and Victorian banks are closed.

The concept of ASX Settlement observing local public holidays (in some but not all States and Territories) is unique to the Australian cash market in comparison to other peer markets and securities settlement facilities in Australia and abroad. Accordingly, ASX considers that changing the basis for determining ASX Settlement Non-Business Days is likely to reflect best practice and by doing so will provide a higher standard of settlement

¹ ASX Settlement Pty Limited and ASX Clearing Corporation Limited are Non-Bank ESA holders.

availability, alignment with other payment systems and greater flexibility to ASX participants and financial institutions when making decisions on funding liquidity and risk management.

Prior to implementing such a change, ASX is interested in feedback from stakeholders about whether there are compelling reasons that would suggest that these benefits are outweighed by any operational impact associated with the move.

Introduction

What are ASX Settlement ‘Non-Business Days’?

The ASX Settlement Rules state that a “Business Day” means a day other than: (a) a Saturday, Sunday, New Year’s Day, Good Friday, Easter Monday, Christmas Day, Boxing Day; and (b) any other day which ASX Settlement notifies facility users is not a Business Day.

If ASX declares an ASX Settlement Non-Business Day on a day other than a national holiday, or the Queen’s Birthday public holiday, CHES Batch Settlement does not occur. The day is not counted when calculating the relevant settlement day for securities transactions effected on prior days nor is the day is not counted when calculating an ex-period pursuant to the ASX Listing Rules. Conversely, the ASX is open for trading on an ASX Settlement Non-Business Day; the CCP continues to collect and pay margins; and the CHES system is fully available noting that batch settlement is not performed.

As ASX operates some processes on these days, certain staffing arrangements must be made by Participants on an ASX Settlement Non-Business Day.

When an ASX Settlement Non-Business Day occurs as a result of a national holiday, or the Queen’s Birthday public holiday, the ASX cash equity market is closed and no securities settlement or trading takes place.

Why were ASX Settlement Non-Business Days introduced for local public holidays?

The observance of local public holidays in NSW or Victoria by ASX Settlement was introduced by the state exchanges at a time before funds transfer systems and the emergence of the payments system operated by the Reserve Bank and was driven by whether a commercial bank was open for business in both of the two major states.

Simply put ASX Settlement Non-Business days were introduced because bank branches were closed and members could not bank the cheque written by the state exchange that covered settlement (nor could the exchange bank cheques received from members) in addition to a broker not being able to bank clients funds received on the day.

RITS Business Hours

The Reserve Bank’s RITS system (including Austraclear) is available when banks are generally open for business in Sydney or Melbourne. RITS is closed on weekends and the following public holidays: New Year’s Day, Australia Day, Good Friday, Easter Monday, Anzac Day, Queen’s Birthday, Christmas Day and Boxing Day.



Benefits of removing ASX Settlement Non-Business Days

Alignment with other securities settlement facilities

The notion of ASX Settlement observing some state public holidays is unique to the Australian cash equity market in contrast to other comparable securities settlement facilities in Australia and abroad.

Austraclear, for example, which is Australia's settlement system and CSD for the wholesale debt market provides a wide range of depository, registration, cash transfer and settlement services in Australia and the Asia-Pacific region. It has a large local and international participant base, settles more than A\$80 billion of transactions per day, does not observe local state public holidays, and is open for business when banks are generally open for business in Sydney or Melbourne including Bank Holidays.

The Depository Trust Company (DTC), the central securities depository subsidiary of The Depository Trust & Clearing Corporation (DTCC), provides settlement services for virtually all equity, corporate and municipal debt trades and Money Market Instruments in the United States, settles approximately US\$600 billion of transactions per day and does not observe local U.S. state public holidays.

International Central Securities Depositories (ICSDs) by nature do not support all local and national holidays across all regions and domiciles in which they support.

Best practice, risk management and alignment with large-value AUD payment systems

Removing the frequency of ASX Settlement Non-Business days will afford a higher standard of settlement availability by providing an additional window for transactions to complete; will deliver funding liquidity improvements for sellers and will provide for earlier delivery of securities to buyers. Furthermore, the scenario of two (or more) days of securities trading falling due for settlement on the same day will be removed resulting in reduced risk concentration and counterparty risk for individual investors, participants and the CCP in addition to capital and cash market margin savings for participants. In summary, the benefits of removing ASX Settlement Non-Business days are comparable to reducing the settlement cycle.

The removal of ASX Settlement Non-Business days will also provide a greater degree of settlement availability, funding liquidity, and risk reduction for unlisted managed funds utilising the mFund Settlement Service due to the earlier settlement of applications and redemptions, and align the CHES system with RITS and Austraclear.



Trading and settlement calendars

At present there are two Business Day schemas for ASX Cash Market Products; (a) an *ASX Business Day* as defined under the ASX Operating Rules and ASX Listing Rules which provides for ASX trading days and effectively determines whether the ASX will be open for business; and (b) an *ASX Settlement Business Day* as defined under the ASX Settlement Operating Rules which provides for ASX settlement days.

By removing ASX Settlement Non-Business days it will no longer be necessary to differentiate trading and settlement days.

Implementation issues

It is acknowledged that any change may require some participants in Sydney and Melbourne, particularly those with operations in only one of those locations, to put in place new operational and staffing arrangements for the days that will cease to be ASX Settlement Non-Business days under the new definition. Such arrangements are already in place for participants based in other states and territories, who are currently required to effect settlement on day's corresponding to public holidays celebrated in their home jurisdictions.

Any additional impact for some participants should be significantly outweighed by the efficiency and risk benefits to the Australian equity market and investors from the change.

ASX is interested in better understanding the nature, impact, and implementation lead-times of these operational changes before making a final decision involving the removal of ASX Settlement Non-Business days.

Annexure A – Questions for consultation

Question

1. Do you agree with the identified benefits of removing ASX Settlement Non-Business Days for cash market products? Are there any other benefits that have not been identified?

2. What operational and systems changes would your business need to make to accommodate the new settlement arrangements? Are you able to quantify the impact?

3. What time period would be necessary to implement any operational changes? Are there any specific administrative adjustments that would need to be made, for example negotiating changes to existing contracts, workplace awards or enterprise agreements to accommodate these changes?