18 June 2024

Mr C. Trance
Group Executive, Securities and Payments
ASX Operations Pty Ltd
20 Bridge Street,
Sydney, NSW
clive.triance@email.asx.com.au

Dear Clive,

Australian Custodial Services Association Submission

The Australian Custodial Services Association (ACSA) is the peak industry body representing members of Australia's custodial and investment administration sector. Our mission is to promote efficiency and international best practice for members, our clients, and the market. Members of ACSA include NAB Asset Servicing, J.P. Morgan, HSBC, State Street, BNP Paribas Securities Services, BNY Mellon, Citi, Clearstream, Netwealth and The Northern Trust Company.

Collectively, the members of ACSA hold securities and investments more than AUD $5.4 trillion in value in custody and under administration for Australian clients comprising institutional investors such as the trustees of major industry, retail and corporate superannuation fund, life insurance companies, responsible entities and trustees of wholesale and retail investment funds, and various forms of international investors into Australia.

ACSA welcomes the ASX's leadership on cash equity settlement and its initiative to seek consultation on the importance, impact, and timelines for T+1 settlement in Australia. As markets globally have moved or are consulting on a move to T+1 settlement, it is important that the Australian market makes strategic, well-informed decisions regarding any change to the settlement cycles in Australia. ACSA also notes that the decision must be taken in consideration of the CHESS Replacement Program given the interrelationship of the outcomes and the limited resources available to work on two significant programs of change concurrently.

Accelerating cash equity settlements in Australia to T+1

The Australian Custodial Services Association (ACSA) does not oppose a move to T+1 settlement in Australia. This move, with its anticipated benefits and challenges, represents a significant evolution in the industry.

ACSA's response to the ASX's consultation is attached as Appendix A. Also attached is a position paper from ACSA which was published in March 2024.

ACSA notes the key benefits of T+1 settlement includes a reduction in counterparty risk, enhanced efficiency, real-time communication, standardisation of timing standards, liquidity and funding benefits, and operational model optimisation. ACSA notes however that the business case for some of these items is pending publication by the ASX at the time of our response. ACSA sees the transition as an opportunity for Australia to align its market practices with global standards and engage in comprehensive re-engineering of market practices.

However, there are acknowledged challenges, such as anticipated initial increases in fail rates, liquidity costs, extended operating hours, implementation costs, regulatory framework adjustments, and potential unintended consequences.

ACSA encourages learning from other international transitions and global markets moving away from T+2 settlement, particularly the moves in the US and Canada. Further, ACSA recommends collaboration across the value chain, training and education, a global support model, and leveraging data analytics for a successful transition.

While ACSA engages in T+1 settlement discussions, it encourages the need to balance it against key market infrastructure upgrades. The new "CHESS" replacement is expected to incorporate T+1 readiness, ensuring a seamless integration of the settlement cycle with market infrastructure upgrades.

ACSA members note that resourcing multiple significant projects like CHESS Replacement and T+1 settlement could create pressure on market experts. Both initiatives have large impacts, and the same set of market experts would be best placed to work on both, however doing both simultaneously introduces risk to the market through the amount of change taking place in a relatively short time. Proper planning, investment, and coordination among market participants and with the CHESS replacement project will be crucial to ensuring a successful shift to T+1 settlement.

Should this consultation with market participants conclude for Australia to move to T+1, ACSA's expectation is a seamless transition which emphasises collaboration, technological readiness, and strategic planning to navigate the complexities of this transformative journey in the global financial landscape.

Thank you again for the opportunity to participate in this consultation. Please contact me if you have any comments about this submission.

Yours sincerely

David Travers
Chief Executive office
Australian Custodial Services Association
Email: david.travers@acsa.com.au
Ph: 0466576471

About ACSA

www.acsa.com.au

Custodians provide a range of institutional services, with clients typically favouring a bundled approach to custody and investment administration. Solutions may include traditional custody and safekeeping, investment administration, foreign exchange, securities lending, tax and financial reporting, investment analytics (risk, compliance, and performance reporting), investment operations middle office outsourcing and ancillary banking services.

These services represent key investment back-office functions – often representing the client's asset book of record and essential source data in relation to the investments they hold.

The key sectors supported by ACSA members include large superannuation funds and investment managers, as well as other domestic and international institutions.

ACSA works with peer associations, regulators, and other market participants on a pre-competitive basis to encourage standards, promote consistency, market reform and operating efficiency.

Note: The views expressed in this letter are prepared by ACSA for the purposes of consideration by ASX Operations Pty Ltd in response to Accelerating cash equity settlements in Australia to T+1 and should not be relied upon for any other purpose. The comments in this letter do not comprise financial, legal or taxation advice and should not be regarded as the views of any particular member of ACSA.

ACSA response

Considerations for accelerating cash equities settlement in Australia to T+1 Whitepape

1. Would a decision to adopt, or not adopt, T+1 settlement affect the Australian market's international competitiveness as a destination for foreign investment?

The decision to invest in Australia is driven by many factors including an investors investment strategy, asset allocation and expertise. The decision to adopt, or not adopt, a T+1 settlement cycle is unlikely to be a key driver for investment decisions, albeit that market inefficiencies, risks and cost could impact macro views of the Australian market's international competitiveness as a destination for foreign investment.

While there are challenges and costs associated with a transition to T+1, there are long-term benefits in terms of alignment to global trends, risk reductions, and enhances operational efficiency. Conversely, not adopting T+1 could make the Australian market less appealing due to perceived inefficiencies and higher risks, potentially leading to a decline in foreign investment interest.

ACSA is uniquely positioned to comment on the adoption of T+1 in Australia given ACSA members are involved in and drivers of the adoption of T+1 in other international markets.

Below we outline of how this decision might affect various aspects of the market:

Advantages of adopting T+1 settlement

1. **Enhanced market efficiency:**
    - **Reduced counterparty risk**: Shortening the settlement cycle from T+2 to T+1 reduces the time during which the seller does not have the funds and the buyer does not have the securities. This decreases counterparty risk and enhances market stability.
    - **Liquidity improvement**: Faster settlements can lead to more efficient use of capital, as investors can reinvest their funds more quickly.

2. **Alignment with global markets:**
    - **Keeping Pace with Global Standards:** The U.S. market recently moved to T+1 along with Canada and Mexico, whilst India has previously moved to T+1.
    - **Competitive Edge**: Early adoption of T+1 could reinforce Australia's position as a leader in market efficiency in the Asia-Pacific region.
    - **Transaction Lag**: Markets with different settlement cycles offer challenges and complexity, particularly when cross market FX, ADR and ETF processing is involved.

3. **Regulatory and operational confidence:**
    - **Market Modernisation**: Transitioning to T+1 demonstrates a commitment to modernising the Australian market and its market infrastructure.

<u>**Challenges of adopting T+1 settlement**</u>

1. **Operational challenges:**
    - **Australia is "T+1½":** Due to the time zone, Australia is a T+1 destination today for European, North American and Latin America investors, a move to T+1 without changes to market infrastructure and processes is effectively a move to "T+½", with settlement instructions needed on T.
    - **System upgrades and costs**: Implementing T+1 requires significant changes to existing settlement systems, processes, and technology. This transition can be costly and complex, particularly for smaller market participants.
    - **CHESS Replacement and T+1**: Additional complexities and challenges for resource priorities exist as the market digests, develops, and implements processes and solutions needed for both CHESS Replacement and T+1 potentially concurrently or back-to-back.
    - **Operational support models**: Operational teams, either in Australia or global hubs, will need to adjust support models for the Australian market which could increase operational risks and costs without strong technological and technical support.

2. **Potential short-term disruptions:**
    - **Initial adjustment period**: The transition to T+1 might lead to short-term disruptions (such as increased fail trades and liquidity requirements) as market participants adapt to the new cycle. Given the success with T+1 implementation in the US, if initial challenges are not managed effectively this could erode investor confidence in the market.

3. **Liquidity and cost implications:**
    - **Changed funding requirements**: Should pre-funding trade settlements be required this may result in more costly liquidity funding outcomes for investors. The provision of credit lines will be an additional cost. Alternatively, any overdrawn cash balances will generate increased operating costs impacting investment cost.
    - **FX and prefunding:** Shortened FX settlement cycles are expected to increase operational costs of execution and prefunding cash balances is expected to result increase liquidity funding costs.
    - **Liquidity and trade execution costs:** the cost of executing trades may increase under a T+1 model due to liquidity funding requirements and the expectation of an increase in fail rates that would need to be absorbed by executing brokers and therefore built into pricing.
    - **Costs of doing business:** Any cost increase of introducing T+1, such as new technologies, process changes or changes to liquidity management will be an increase in the cost of doing business and ultimately the magnitude of any cost changes may impact the markets competitiveness.

Consequences of not adopting T+1 settlement

1. **Risk of lagging behind**:
   - **Competitiveness:** If Australia remains on T+2 while other major markets implement T_+1 Australia could be perceived as lagging in market efficiency.
   - **Operational inconsistency**: Global investors might face operational and funding challenges when dealing with different settlement cycles, potentially reducing their willingness to invest in markets with slower settlement processes.

2. **Potential increase in risks:**
   - **Higher counterparty risk:** Maintaining a T+2 cycle means the counterparty risk remains higher compared to markets operating on a T+1 cycle, which could be a concern for risk-averse international investors.

3. **Missed opportunities:**
   - **Efficiency gains:** Not adopting T+1 means missing out on the potential liquidity and efficiency benefits that may come with a shorter settlement cycle. This could be seen as a missed opportunity to enhance the overall attractiveness of the market.

2. Would Australia staying on T+2 pose any restrictions on trading volumes for trading participants?

As noted, the decision to invest in Australia is driven by many factors including an investors investment strategy, asset allocation and expertise. If Australia continues with a T+2 settlement cycle while other major markets transition to T+1, ACSA members do not expect significant impacts on trading volumes for trading participants.

While staying on T+2 would not impose direct restrictions on trading volumes, it creates indirect constraints due to higher capital requirements, increased operational costs, and a potential comparative disadvantage in attracting international investors versus those markets that have adopted T+1.

Potential Advantages of Staying on T+2

While staying on T+2 may have impacts on trading volumes, there are also some potential advantages for certain participants:

1. **Operational stability**:
   - **Adjustment period**: Participants, particularly local domestic participants, may find the current T+2 cycle more stable and familiar. Changing to T+1 could cause short-term operational disruptions, which some participants might wish to avoid.

2. **Increased failed settlements:**
    - **Low fail rates**: Australia currently has an efficient market settlement framework with low settlement fail rates. Compressing the settlement cycle from T+2 (actually T+1.5) may increase market risks rather than the expected reductions if settlement fail rates increase permanently.

3. **Time for readiness**:
    - **Gradual transition**: Staying on T+2 gives participants more time to prepare for a future transition to T+1, ensuring that systems and processes are fully ready, potentially minimising initial disruptions and ensuring a smoother transition when it happens.
    - **CHESS timelines**: A longer timeline to move to T+1 may have benefits to the implementation of the CHESS replacement platform as participants can better allocate resources to change projects.

<u>Restrictions on trading volumes</u>

1. **Increased capital requirements**:
    - **Collateral and margin**: Longer settlement periods require participants to maintain higher levels of collateral and margin to cover the additional day of settlement risk. This ties up capital that could otherwise be used for other trading activities.
    - **Liquidity management**: Participants need to manage their liquidity more carefully with T+2, particularly when crossing trades in markets that sit across T+2 and T+1 settlement cycles.

2. **Operational risk and costs**:
    - **Higher operational costs**: Longer settlement cycles entail greater operational costs related to risk management, compliance, and transaction processing. These increased costs can deter smaller participants from engaging in larger volumes of trading.

3. **Comparative disadvantage**:
    - **Global investor preferences**: International investors may prefer markets with shorter settlement cycles, like T+1, due to the reduced risk and quicker access to funds. For example: will investors trade a dual listed stock in a perceived lower risk T+1 or a T+2 market to gain investment exposure desired.
    - **Liquidity and market depth**: Reduced participation by international investors can lead to lower liquidity and market depth. This can make it harder for participants to execute large trades without significantly impacting prices, indirectly restricting trading volumes.

3. Can you quantify the likely impact to your organisation's fail rate of a move to T+1 (for example, based on your organisation's experience in other markets)?

Quantifying the likely impact on an organisation's fail rate when moving from a T+2 to a T+1 settlement cycle is complex and specific is to individual ACSA member operating models, market conditions, and individual organisation preparedness. However, insights can be drawn from experiences in other markets and general industry trends albeit that time zones increase the complexity in an Australian migration.

Insights from other markets

1. **U.S. Experience**:
    - In the T+2 environment the US fail rate was between 2-4%, the average since T+1 has been implemented is approximately 2.25%. (Noting it is only early in the implementation).
2. **Indian Markets**:
    - Prior to moving to the T+1 settlement cycle in the Indian market, the defect rate was 0.7%-0.8%, while after the implementation of T+1, it has halved to 0.3%-0.4%.

[**Note:** The more significant implications on Australia's time-zone need to be considered when utilising these markets as a comparison.]

Factors influencing fail rate reduction.

1. **Operational efficiency**:
    - **Trade instructions:** Approximately 35% of institutional broker flow originates from offshore clients with 24% originating from North America so given the time zone challenges ACSA members expect that fail rates would be impacted.
    - **Time zone challenges:** It is expected that fail rates on a Tuesday settlement would be higher as operating hubs within the North America region would not be open on a Sunday in support of trading on Monday in Australia. This will place additional pressure on lending arrangements and fails coverage increasing the cost of business as a result.
    - **Automation and Straight-Through Processing (STP)**: Organisations that have invested in automation and post trade matching will be better positioned to handle shorter settlement cycles, reducing the likelihood of settlement fails.
    - **Robust reconciliation processes**: Efficient reconciliation processes to help identify and rectify discrepancies more quickly, reducing fail rates.

2. **Trade matching**:
    - **Irrevocable instructions**: Changes are needed to the way custodians instruct trades to CHESS for settlement. Today custodians are unable to pre-match trades due to the irrevocable nature of the CHESS instruction. Custodians

need to ensure cash or stock is available in omnibus accounts today before alleging a trade. Custodians require a pre-matching capability that does not commit the custodian to settle the trade. The commitment to settle should follow in a different message format. The basic concept is that the existing flow of irrevocable matching and settlement should continue, but an additional step added in front which allows for market comparison of messages.

- **Free of Payment Instructions**: Pre-matching should be extended to Free of Payment (FOP) instructions which currently can only be released on Settlement Date.
- **Common transaction identifiers**: Consideration should be given to the introduction of Unique Trade Identifiers (UTIs) or an equivalent to simplify matching processes and lessen likelihood of matching ambiguity.

3. **Market Infrastructure**:
    - **Pre settlement matching:** Today approximately 25% of custodian settlements are instructed on settlement date. Market wide technology is needed to ensure investors, particularly those offshore, have efficient mechanisms to ensure trades are matched, alleged, and confirmed in the shortest timeframe to reduce likelihood of fails.
    - **Settlement batch times:** A move to T+1 is effectively a move to T+½, without changes to settlement batch times and cycles there is only small windows for matching and instructing trades for settlement.
    - **Clearing and settlement systems**: Efficient clearing and settlement systems are crucial. Markets with robust infrastructure tend to experience fewer settlement fail which highlights the need for CHESS Replacement and T+1 initiatives to align and be effectively managed across the market.

4. **Liquidity management:**
    - **Availability of credit**: Ensuring credit limit availability, payment systems changes, and liquidity mismatches can be minimised will smooth T+1 implementation risks.
    - **Payment rails**: Payment platforms need to be able to cater for short cycle settlements and funding requirements for participants to the clearing house.

5. **Industry coordination**:
    - **Market participant readiness**: Coordination among market participants, including brokers, custodians, clearing and settlement and registry/depository services, is essential to ensure a smooth transition and minimise settlement fails.

4. What is the scale of investment and technology change required for your organisation to support a move to T+1 settlement, from both a cost and lead time perspective (for those organisations involved in overseas transitions would you estimate Australia to be more/less work than specific overseas markets)?

The scale of investment and technology change to move to T+1 settlement will vary across ACSA members based and their individual technology stacks and global operating models supporting trade processes. In most cases, ACSA Members feel the transition to T+1 settlement in Australia would require a significant scale of investment in technology upgrades, process redesign, and training.

ACSA members experience in overseas markets suggests a lead time of approximately 18-36 months is required for implementation of T+1 in Australia, although recent US experiences may help to reduce this to 12-24 months.

ACSA members note that resourcing multiple significant projects like CHESS Replacement and T+1 settlement could create pressure on market experts. Both of these initiatives have large impacts, and the same set of market experts would be best placed to work on both, however doing both simultaneously introduces risk to the market through the amount of change taking place in a relatively short time. Proper planning, investment, and coordination among market participants and with the CHESS replacement project will be crucial to ensuring a successful shift to T+1 settlement.

The scale of investment, process and technology change required for ACSA members to support a move to T+1 settlement could require substantial financial, operational, and technological adjustments including:

<u>Financial Investment</u>

1. **System upgrades**:
    - **Technology infrastructure**: Investment in upgrading technology infrastructure is crucial. This includes updating software systems, enhancing network capabilities, and improving data processing speeds.
    - **Real-time processing**: Upgrade trade processing systems to handle real-time trade validation, confirmation, and matching. This involves implementing high-speed data processing capabilities and ensuring systems can handle peak loads efficiently.
    - **Position management systems**: Institutional broker systems will need to migrate towards continuous netting and position management. Systems are currently batch driven so a shift to real time updates is a material undertaking.
    - **Order management systems**: Changes will be expected to front office order management platforms in addition to middle office systems that support

block and fund affirmations to ensure that they can be provided by the end of Trade Date.
- **Trade affirmation systems**: There are multiple methods and systems currently used for affirmation processes such as CTM/IRESS/Omegeo/FIX/EMail, all of which would require some form of enhancement.
- **Trade matching**: Identification, development and implementation of post trade matching processes and solutions using the hold and release model utilised in major markets across Europe and Improved end investor identification such as Trade Suite IDs used in the USA.

2. **Market infrastructure:**
   - **CHESS opening hours**: It is expected that CHESS opening and processing times would be amended to allow processing during an overnight period and as such local interfaces to CHESS would also need to be enhanced to further automate message release and updates. Specifically, a pre-matching capability will need to be available well into the Australian night-time, to allow European and American investors the opportunity to review potential fails and reinstruct their agents. The changes here are not immaterial, the systems are generally designed to operate on batch cycles which requires overnight processing down time that will need to be considered.
   - **CHESS instructions:** Multiple systems are required in the successfully release of instructions to CHESS. All would need to be aligned in terms of operating hours with the potential ability to continue to operate on a 24-hour basis.
   - **Settlement batch times:** A move to T+1 is effectively a move to “T+½”, without changes to settlement batch times and cycles there is only small windows for matching and instructing trades for settlement.
   - **Enhanced clearing systems**: Upgrade clearinghouse systems to support faster netting and settlement processes. This may involve integrating new clearing algorithms and optimising existing ones.
   - **Irrevocable instructions**: Changes are needed to the way custodians instruct trades to CHESS for settlement. Today custodians are unable to pre-match trades due to the irrevocable nature of the CHESS instruction. Custodians need to ensure cash or stock is available in omnibus accounts today before alleging a trade. Custodians require a pre-matching capability that does not commit the custodian to settle the trade. The commitment to settle should follow in a different message format. The basic concept is that the existing flow of irrevocable matching and settlement should continue, but an additional step added in front which allows for market comparison of messages.
   - **Real-Time Gross Settlement (RTGS)**: Upgrade to or optimisation of RTGS systems to ensure that securities and funds are settled real-time.
   - **Improved fail reporting**: Fail trade reporting and cash requirements will be required in a shadow settlement batch.

3. **Operational adjustments**:

- **Business logic change**: It is expected there will be wholesale changes to business logic, market practice and static data required to support T+1 settlement.
- **Process redesign**: Redesigning operational processes to fit the new T+1 requirements involve internal and external resourcing.
- **Trade deadlines:** Internal system cut-offs and downtimes will require review to ensure the volumes can be processed same day.
- **Securities lending Transactions:** Redesigning and enhancement of processes and systems to cater for changing requirements.
- **Offshore investor support models**: Offshore clients would need to consider the benefits of establishing global operational hubs to support the Australian workflow, especially clients domiciled in North America to ensure timely instruction.
- **Testing and simulations**: Extensive testing and simulations to ensure smooth transition.

4. **Liquidity and funding**:
    - **Establishing credit lines**: Ensuring adequate credit lines are available to meet changing liquidity requirements, including intra-day, and changes to any margining requirements.

5. **Integration and testing**:
    - **System integration**: Ensure all upgraded systems and processes are seamlessly integrated and can communicate effectively. This includes internal systems as well as external systems used by clients and counterparties.
    - **Comprehensive testing**: Conduct extensive testing, including unit testing, integration testing, performance testing, and user acceptance testing (UAT), to ensure systems perform as expected under T+1 settlement conditions.

6. **Project management**:
    - **Phased rollout**: Implement a phased rollout plan to manage the transition smoothly, starting with critical systems and progressively upgrading other components.
    - **Stakeholder coordination**: Coordinate closely with all stakeholders, including clients, clearinghouses, custodians, and regulators, to ensure alignment and address any issues promptly.

7. **Staffing and training**:
    - **Training programs**: Comprehensive training programs for staff to handle the new processes efficiently.
    - **Staffing capacity**: Hiring teams to manage any exception processes at point of implementation.
    - **Hiring specialists**: Additional costs may be incurred for hiring IT specialists, consultants, and project managers to oversee the transition.

<u>Comparison with Overseas Markets</u>

1. **Complexity and Scale**:
    - **U.S. Market Transition**: The U.S. market, with its extensive and highly integrated financial ecosystem, faced significant challenges in transitioning to T+1, requiring substantial investment and time over a 36-month period. However, the presence of large, well-funded institutions helped mitigate difficulties.
    - **European Markets**: European markets had a relatively smoother transition to T+2, owing to their smaller scale compared to the U.S., but they still faced considerable logistical and regulatory challenges.
2. **Australia's Market**:
    - **Scale and Integration**: Australia's financial market, while smaller than the U.S., is highly integrated and sophisticated, suggesting a transition to T+1 would be complex but manageable.
    - **Regulatory Environment**: Australia's regulatory environment is robust, and regulators have been proactive in ensuring market stability, which may ease some transitional hurdles compared to other more fragmented regulatory landscapes.
    - **Historical Adaptability**: Historically, Australian financial institutions have shown resilience and adaptability in implementing regulatory and technological changes, which may suggest a more efficient transition process.

5. What technology upgrades would your organisation (and clients) need to do to support T+1?

ACSA's response to Question 4 regarding scale of investment sets out the key technology, business logic and process changes that ACSA members may need to make based on their technology stacks and global operating models. Transitioning to T+1 settlement requires investment in technology and process upgrades across trade processing, settlement systems, risk management, data management, client interfaces, security, compliance, and infrastructure. Ensuring a smooth transition involves detailed planning, extensive testing, and close coordination with all stakeholders.

ACSA members are concerned with resource requirements for multiple significant projects like CHESS Replacement and T+1 settlement due to small pools of subject matter experts to resource these process aligned projects. Proper planning, investment, and coordination among market participants and with the CHESS replacement project will be crucial to ensuring a successful shift to T+1 settlement.

Other upgrades, beyond those in question 4, that ACSA members and their clients may need to undertake several technology and process changes across different areas including:

<u>**Other technology and process changes**</u>

1. **Risk management and compliance systems**:

- **Intraday risk monitoring**: Implement or enhance intraday risk monitoring systems to provide real-time risk assessment, credit exposures, and margin calculations. This helps manage counterparty risk more effectively.
- **Liquidity management**: Upgrade liquidity management systems to ensure sufficient liquidity is maintained to meet T+1 settlement requirements.
- **Real-time compliance monitoring**: Upgrade compliance systems to monitor transactions in real-time for adherence to regulatory requirements, sanction screening anti-money laundering (AML), and know-your-customer (KYC) checks.

2. **Data Management and Reporting**:
    - **Real-time data feeds**: Implement real-time data feeds and ensure that data management systems can handle the increased volume and speed of data. This includes market data, transaction data, and risk data.
    - **Regulatory reporting**: Upgrade regulatory reporting systems to ensure compliance with reporting requirements that may change with T+1 settlement. This involves real-time or near-real-time reporting capabilities.

3. **Other**:
    - **Alignment to global platforms**: Changes will be needed to integrate into downstream systems (including core regional / global systems).
    - **Business continuity**: Upgrade to BCP including infrastructure, compressing recovery times, and increasing recovery points as well as potentially upgrading tiering and/or criticality of systems.

Client-facing technology and process upgrades

1. **Client interfaces and portals**:
    - **Real-time access**: Enhance client portals and interfaces to provide real-time access to trade and settlement status, account balances, and transaction history.
    - **Trade instructions**: Clients will need to ensure their middle offices are equipped to aggregate and instruct custodians as soon as possible after trading closes, to allow time for pre-matching. Affirmations will need to be completed at the sub account level by the close of business on Trade Date.

2. **Communication Systems**:
    - **Automated notifications**: Improve automated notification systems to inform clients of trade statuses, settlement confirmations, and potential issues in real-time.
    - **Enhanced customer support**: Upgrade customer support systems to handle increased queries and provide timely assistance.

6. What market-wide technology or infrastructure adoption would be needed to support a move to T+1?

Transitioning to T+1 settlement involves upgrades to technology and infrastructure across the entire market. It requires coordinated efforts among trading platforms, clearing and settlement systems, data management solutions, custodial services, brokers, banks and regulatory bodies.

Market-wide technology and infrastructure adoptions needed include:

2. **Trade affirmation:**
   - **Sub account trade affirmations**: From a markets perspective affirmations need to be available at the sub account level no later than end of day on trade date to allow Standard Settlement Instructions (SSIs) to be applied to instructions to custodians. Affirmation platforms will need the capability to complete this same-day process.
   - **Mirror US process**: Like the US's affirmation process, a pre-matching process must be made available after trading closes which can enable domestic and offshore investors to review whether their counterparty recognises their instruction and reinstruct their custodian or agent where applicable. This needs to be available well into the US Day to create a T+1 environment for offshore investors.
   - **Leverage existing technology**: As an example of successful technology in this space, Synapse, used in Hong Kong, offers same day matching of affirmations.

3. **Trade Matching:**
   - **Trade matching**: Identification, development and implementation of post trade matching processes and solutions using the hold and release model utilised in major markets across Europe and Improved end investor identification such as Trade Suite IDs used in the US.

4. **Market infrastructure:**
   - **CHESS opening hours**: It is expected that CHESS opening and processing times would be amended to allow processing during an overnight period and as such local interfaces to CHESS would also need to be enhanced to further automate message release and updates. Specifically, a pre-matching capability will need to be available well into the Australian night-time, to allow European and American investors the opportunity to review potential fails and reinstruct their agents. The changes here are not immaterial, the systems are generally designed to operate on batch cycles which requires overnight processing down time that will need to be considered.
   - **Settlement batch times:** A move to T+1 is effectively a move to T+½, without changes to settlement batch times and cycles there is only small windows for matching, instructing trades for settlement and problem resolution. ACSA members have varying views on this matter, reflecting the broader industry's view that several options are viable (whether a later batch, multiple batches,

etc.). As such ACSA as an organisation will not take a view on this point and we refer you to individual participant responses to consider the optimal approach.

- **Enhanced clearing systems**: Upgrade clearinghouse systems to support faster netting and settlement processes. This may involve integrating new clearing algorithms and optimising existing ones.
- **Irrevocable instructions**: Changes are needed to the way custodians instruct trades to CHESS for settlement. Today custodians are unable to pre-match trades due to the irrevocable nature of the CHESS instruction. Custodians need to ensure cash or stock is available in omnibus accounts today before alleging a trade. Custodians require a pre-matching capability that does not commit the custodian to settle the trade. The commitment to settle should follow in a different message format. The basic concept is that the existing flow of irrevocable matching and settlement should continue, but an additional step added in front which allows for market comparison of messages.
- **CHESS efficiency**: The CHESS replacement program needs to ensure the new platform can manage the increased speed of transactions, ensuring efficient netting, margining, and settlement processes. This includes moving from irrevocable settlement commitment to a market-wide pre-settlement matching process.
- **Real-Time Gross Settlement (RTGS)**: Upgrade to or optimisation of RTGS systems to ensure that securities and funds are settled real-time.
- **Improved fail reporting**: Fail trade reporting and cash requirements will be required in a shadow settlement batch. Consideration of an alert service for participants to be alerted key times as to whether their current scheduled positions will result in an overdraw of their HIN.
- **Investor identification**: The use of unique investor reference data could be used to identify settlement parties where no instruction has been provided. This is being used in the US to assist with providing allegement messages to investors to assist with the identification of differences in trade settlement information such as consideration.

5. <u>**Margin calls and collateral**</u>
   - **Cash margins:** A move to T+1 is also expected to result in a change in the cash market margining calls to an end of day call. This will require the margin to be calculated as close to market close and requested shortly after. This is expected to require an infrastructure change within the ASX margining model.
   - **Cash collateral:** The payment of cash collateral to satisfy the margin call on Trade Date would require an extension within Austraclear to allow participants to transfer cash to the ASX. An RBA change would be expected to facilitate same day margining.

6. <u>**Comprehensive data management solutions**</u>
   - **Enhanced data analytics**: Clearing House and CHESS tools and systems to perform real-time data analytics for risk management, compliance checks, and operational efficiency.

7. <u>**Robust risk management systems**</u>
    - **Intraday risk monitoring**: Market participants need systems capable of monitoring risk on an intraday basis, including real-time margin calculations and stress testing.
    - **Liquidity management**: Market systems are needed to understand and manage liquidity effectively, ensuring that participants can meet their settlement obligations within the shortened timeframe.

8. <u>**Automated communication and messaging standards**</u>
    - **ISO 20022**: Adoption of the ISO 20022 messaging standard for financial transactions to ensure consistent and efficient communication between local and global market participants.

9. <u>**Regulatory and compliance adjustments**</u>
    - **Corporate Actions**: Corporate action processing lacks automation and efficiency due to the lack of STP, and gaps in the legal and market rules framework for corporate actions which requires heavy manual touch against these events.
    - **Compliance systems**: Enhanced compliance systems for real-time monitoring and reporting to meet regulatory requirements.

7. What could impact your organisation’s capacity to move to T+1?

The capacity to move to T+1 settlement is influenced by a combination of technological, operational, financial, regulatory, and external factors. ACSA members need to assess and address potential gaps in systems and processes that are not isolated to just Australia, which reflects the global nature of technology solutions and global operating models.

Key impacts include the preparedness of technology systems and infrastructure, redesigning processes, ensuring staff readiness, securing liquidity and credit, and coordinating with market participants.

As noted, ACSA members note that resourcing multiple significant projects like CHESS Replacement and T+1 settlement could create pressure on market experts. Both initiatives have large impacts, and the same set of market experts would be best placed to work on both, however doing both simultaneously introduces risk to the market through the amount of change taking place in a relatively short time. Proper planning, investment, and coordination among market participants and with the CHESS replacement project will be crucial to ensuring a successful shift to T+1 settlement.

Factors affecting ACSA members capacity to move to a T+1 settlement cycle include:

<u>**Technological Readiness**</u>

1. **Global Platforms:**

- **Enhancement hurdles**: The systems that require changes are not specific or isolated to Australia, in fact the majority are global platforms supported by global development teams and at times vendors.
- **Global prioritisation**: Enhancements to global systems go through rigorous prioritisation determinations. The prioritisation considers the business case for each change and any regulatory need. As such the global pipeline of requests may result in a low priority for a T+1 change in Australia.

2. **Legacy systems:**
   - **Upgrade complexity**: ACSA members with customised or legacy systems may find it challenging and time-consuming to upgrade to support T+1. Compatibility issues and the need for upgrades maybe impediments
   - **Integration**: Ensuring seamless integration between upgraded systems and existing infrastructure is crucial. Lack of integration capabilities can delay implementation.

<u>**Project Risks**</u>

1. **Project Resourcing:**
   - **Availability of technical experts:** There is a limited pool of subject matter experts to resource the significant projects of CHESS Replacement and T+1 settlement Proper planning, investment, and coordination among market participants and with the CHESS replacement project will be crucial to ensuring a successful shift to T+1 settlement.

2. **Execution:**
   - **Execution risk:** The overall risk profile associated with extensive market change is significant, T+1 settlement, CHESS Replacement projects and other regulatory initiatives create significant delivery risk when running concurrently, and in a short time frame.
   - **Realistic lead-times:** Large organisations, like ACSA members, require as much lead time as possible to design and deploy relevant technology solutions.

<u>**Operational Readiness**</u>

1. **Process Redesign:**
   - **Significance of business process re-design**: Existing global and local processes will need re-design to accommodate T+1, including trade matching, confirmation, and settlement workflows.
   - **Level of automation**: Increased automation of manual processes is required. The degree of current automation can impact how easily an ACSA member can transition to T+1.

2. **Client requirements:**
   - **Bespoke client requirements:** ACSA members may need to support bespoke client requirements in the event they are unable or slow to adapt their operating models.

3. **Staff training:**
    - **Knowledge and skills uplift**: Ensuring staff are adequately trained to handle new systems and processes is vital. Lack of training can lead to operational inefficiencies and errors.
    - **Effectiveness of change management**: Effective change management strategies are necessary to guide staff through the transition, minimising resistance, and confusion.

Market participant readiness

1. **Counterparty coordination**:
    - **Alignment with counterparties**: Successful transition to T+1 requires all market participants, including brokers, custodians, and clearinghouses, to be equally prepared. Gaps in readiness can create bottlenecks.
    - **Communication and collaboration**: Effective communication and collaboration among market participants are essential to ensure a smooth transition.

2. **Industry-wide testing**:
    - **Comprehensive testing**: Coordinated industry-wide testing is necessary to identify and resolve potential issues.

8. To ensure all investors have time to match instructions, what options/solutions do you consider viable, or necessary, to be in place prior to any transition to T+1, such as trade matching confirmation platforms, system/rule changes etc?

As noted in question 6, to ensure all investors have sufficient time to match instructions in a T+1 settlement environment, it is crucial to implement trade matching and confirmation platforms, standardise processes, implement and upgrade technology solutions, make necessary regulatory adjustments (including ASX business rules), and enhance operational practices. Additionally, industry-wide collaboration, extensive testing, and robust training programs are essential to facilitate a smooth transition.

Measures to help mitigate risks, reduce settlement failures, and ensure the efficient functioning of the financial market under the T+1 settlement cycle include:

Trade Matching and Confirmation Platforms

1. **Centralised matching systems:**

- **Trade matching**: Identification, development and implementation of Pre-settlement matching processes and solutions using the hold and release model utilised in major markets across Europe and Improved end investor identification such as Trade Suite IDs used in the US.
- **Pre-settlement matching**: Pre-settlement matching can reduce settlement failures by ensuring all details are agreed upon in advance.
- **Matching timeline**: Pre-settlement matching process rule changes should be imposed requiring all pre-matching is completed by a certain time on Trade date, noting that this time will have to extend into the early morning to cater for the time zones of offshore investors.
- **Matching criteria:** Adoption of unique transaction references to facilitate more efficient (speed and accuracy) of matching processes.
- **Real-time trade matching and confirmation**: Trading platforms must be capable of matching and confirming trades in real-time to meet the accelerated settlement timeline.
- **Real-time status updates**: Platforms that provide real-time status updates and notifications can help all parties stay informed and act quickly if discrepancies arise.

2. **Market infrastructure:**
   - **CHESS Message review**: Review of CHESS settlement message types – 101 (market DVP) versus 005 (free of payment) to streamline settlement and securities lending processes.
   - **CHESS opening hours**: It is expected that CHESS opening and processing times would be amended to allow processing during an overnight period and as such local interfaces to CHESS would also need to be enhanced to further automate message release and updates. Specifically, a pre-matching capability will need to be available well into the Australian night-time, to allow European and American investors the opportunity to review potential fails and reinstruct their agents. The changes here are not immaterial, the systems are generally designed to operate on batch cycles which requires overnight processing down time that will need to be considered.
   - **Settlement batch times:** A move to T+1 is effectively a move to T+½, without changes to settlement batch times and cycles there is only small windows for matching, instructing trades for settlement and problem resolution. ACSA members have varying views on this matter, reflecting the broader industry's view that several options are viable (whether a later batch, multiple batches, etc.). As such ACSA as an organisation will not take a view on this point and we refer you to individual participant responses to consider the optimal approach.
   - **Enhanced clearing systems**: Upgrade clearinghouse systems to support faster netting and settlement processes. This may involve integrating new clearing algorithms and optimising existing ones.
   - **Irrevocable instructions**: Changes are needed to the way custodians instruct trades to CHESS for settlement. Today custodians are unable to pre-match trades due to the irrevocable nature of the CHESS instruction. Custodians need to ensure cash or stock is available in omnibus accounts today before alleging a trade. Custodians require a pre-matching capability that does not commit the

custodian to settle the trade. The commitment to settle should follow in a different message format. The basic concept is that the existing flow of irrevocable matching and settlement should continue, but an additional step added in front which allows for market comparison of messages.

- **CHESS efficiency**: The CHESS replacement program needs to ensure the new platform can manage the increased speed of transactions, ensuring efficient netting, margining, and settlement processes. This includes moving from irrevocable settlement commitment to a market-wide pre-settlement matching process.
- **Real-Time Gross Settlement (RTGS)**: Upgrade to or optimisation of RTGS systems to ensure that securities and funds are settled real-time.
- **Improved fail reporting**: Fail trade reporting and cash requirements will be required in a shadow settlement batch. Consideration of an alert service for participants to be alerted key times as to whether their current scheduled positions will result in an overdraw of their HIN.
- **Investor identification**: The use of unique investor reference data could be used to identify settlement parties where no instruction has been provided. This is being used in the US to assist with providing allegement messages to investors to assist with the identification of differences in trade settlement information such as consideration.

Regulatory and Rule adjustments:

- **Mandatory deadlines**: Establish mandatory deadlines for trade matching and confirmation to ensure all parties complete their tasks within the required timeframe.
- **Penalties:** Settlement rule changes mandating pre-matching by a certain time of day will be key to success. On consideration, ACSA does not believe that penalties for missing matching are an appropriate incentive, however, as given Australia's unique geographical position the likely impact will be an increase in broker fees to cover inevitable penalties, which will disincentivise investment.
- **Corporate Actions**: Corporate action processing lacks automation and efficiency due to the lack of STP, and gaps in the legal and market rules framework for corporate actions which requires heavy manual touch against these events and to align to T+1 settlement impacts. While not a deciding factor by itself, corporate actions automations introduced to the CHESS Replacement system would be an immense enabler of an effective T+1 market in Australia.
- **Regulatory framework**: Update regulatory frameworks to support T+1 settlement, including changes to ASX business rules, reporting timelines and compliance checks.

Operational changes

1. **Corporate Actions**

- **Alignment:** All corporate actions will require alignment such that reply by date is always a day after record date for a T+1 market to be successful. This is a non-negotiable item for market efficiency in a T+1 space.

- **Corporate announcements**: Issuers will need to ensure timely dissemination of information regarding corporate actions to meet the accelerated settlement deadlines.
- **Dividend payments and other distributions**: The timeline for processing dividends and other corporate actions will need to be shortened to align with the T+1 cycle, requiring more efficient administrative processes.

2. Extended operating hours:

- **Operating hours**: Extended operating hours for processing support teams to cater for compressed trade flow cycles and exceptions.

9. From the perspective of ETF issuers which scenario best fits the needs of the Australian ETF market – Australia remains on T+2 and the US (and potentially other major global markets) operates on T+1, or Australia and the US (and potentially other major global markets) operate on T+1 – and why?

Without the changes noted in prior questions (particularly 6 and 8), remaining on T+2 in Australia with other market on T+1 would be the best fit due to the time zone differences. The current issuer processes of application and redemptions is a manual process that takes time to complete. The affirmations from issuers resulting from basket changes are likely to be forthcoming at the EOD on Trade Date under a T+1 model which could result in increase in fails on ETF securities. The T+2 timing provides sufficient time ensure affirmations are processed.

If Australia moved to T+1 model, consideration would be needed for the ability to hedge US Issued ETFs that would become restrictive due to time zone difference. Further this question should consider implications beyond the US market.

In addition to move to the ETF market to T+1, automation and efficient ETF processes are needed to alleviate risk. Including:

1. Fully automated creation and redemption processes
2. Enhanced, automated basket creation and affirmation systems
3. Improved matching and trading solutions
4. Operational process enhancements
5. Review of CHESS messages 022 requirements and 101 delivery
6. Enhanced risk management and liquidity
7. Corporate action deadlines and processes
8. Client and counterparty coordination
9. Market infrastructure improvements
10. Testing and preparedness

10. In the event that Australia adopts T+1, what potential measures need to be considered to alleviate the challenges for ETF issuers?

If Australia adopts a T+1 settlement cycle, ETF issuers will face several challenges that need to be addressed to ensure a smooth transition and ongoing operational efficiency.

As noted above in question 9, the process to settle ETF units in the creation and redemption process requires greater levels of automation to enable STP of transaction as registries process the transactions as holding adjustments and custodians process the transactions as settlement instructions.

11. In the event that Australia remains on T+2, what potential measures need to be considered to alleviate the challenges for ETF issuers?

To alleviate the challenges for ETF issuers, if Australia remains on T+2 while other major markets move to T+1, it is crucial to implement a combination of operational adjustments, technological enhancements, client communication efforts, and regulatory measures.

Operational adjustments

1. **Workflow coordination**:
    - **Cross-border settlement coordination**: Ensure procedures for managing the discrepancies between T+1 and T+2 settlement cycles are robust, particularly for ETFs with cross-border underlying assets.
    - **Synchronisation of processes**: Ensure that workflows are synchronised to accommodate the different settlement cycles, minimising operational disruptions.

2. **Extended cut-off times**:
    - **Flexible cut-off times**: Extended cut-off times to ensure that there is sufficient time to reconcile and settle trades across different time zones.

Technology enhancements

1. **Automation and STP**:
    - **CHESS messaging**: The timing of the registry 022 message is now out of sync with any US settlement. Given the timing of the 022 is not mandated, if it was, this would further improve and inefficiency and the enablement of an efficient 101 OTC delivery.
    - **Increased automation**: Enhance straight-through processing (STP) capabilities to automate as much of the trade lifecycle as possible, reducing manual intervention and errors.

- **Trade matching platforms**: Utilise or enhance trade matching platforms to handle the complexities of different settlement cycles, ensuring timely and accurate trade confirmations.

Client and counterparty communication

1. **Transparent communication**:
   - **Client education**: Educate clients about the implications of operating on a T+2 cycle while other markets are on T+1. Provide clear guidelines and support to help them navigate the complexities.
   - **Regular updates**: Provide regular updates and transparent communication regarding any changes or issues related to settlement cycles.

Regulatory and compliance measures

1. **Regulatory coordination**:
   - **Regulatory engagement**: Engage with regulators to ensure that they understand the challenges posed by different settlement cycles and to seek guidance or adjustments in regulatory requirements.
   - **Compliance adjustments**: Adjust compliance processes to ensure they meet the regulatory requirements of both T+1 and T+2 markets, reducing the risk of non-compliance.

12. What changes would be required to the securities lending market to facilitate/enable a move to T+1 (e.g. centralised, regulatory changes)? Would the changes need to be in place prior to a move to T+1?

To facilitate and enable a move to T+1 settlement, the securities lending market will require changes in infrastructure, technological upgrades, regulatory adjustments, operational processes, market participant readiness, and market infrastructure improvements. These changes must be in place prior to the transition to ensure that the securities lending process remains efficient and to mitigate any potential risks associated with the shorter settlement cycle.

These changes need to be carefully planned and implemented prior to the move to T+1 settlement to avoid disruptions. The expectation is that any existing regulatory reporting and the deadlines for submission will be adjusted to meet the market move to T+1 settlement.

Here are the key areas of change:

Market infrastructure

1. **Enhanced trade matching and confirmation:**

- **Pre-matching services**: Improve pre-matching services for securities lending transactions to ensure that loan agreements are confirmed well before the deadlines, reducing the risk of mismatches and delays.

2. **Matching and settlement times:**
   - **CHESS opening hours**: It is expected that CHESS opening and processing times would be amended to allow processing during an overnight period and as such local interfaces to CHESS would also need to be enhanced to further automate message release and updates. Specifically, a pre-matching capability will need to be available well into the Australian night-time, to allow European and American investors the opportunity to review potential fails and reinstruct their agents. The changes here are not immaterial, the systems are generally designed to operate on batch cycles which requires overnight processing down time that will need to be considered.
   - **Settlement batch times:** A move to T+1 is effectively a move to T+½, without changes to settlement batch times and cycles there is only small windows for matching, instructing trades for settlement and problem resolution. ACSA members have varying views on this matter, reflecting the broader industry's view that several options are viable (whether a later batch, multiple batches, etc.). As such ACSA as an organisation will not take a view on this point and we refer you to individual participant responses to consider the optimal approach.

3. **Collateral management systems**:
   - **Automated collateral management**: Enhance collateral management systems to handle collateral valuation, margin calls, and substitutions in real-time, ensuring that collateral requirements are met promptly.
   - **Collateral optimisation**: Enhance collateral optimisation strategies to make efficient use of available collateral, reducing the need for frequent substitutions and recalls.

5. **Settlement system enhancements**:
   - **Real-time settlement capabilities**: Real time DVP settlement of lending transactions, combining collateral with settlement to absorb the higher lending load and tighter deadlines associated with T+1 without having to manage cash separately.
   - **Cross-market coordination**: Ensure that settlement systems are capable of coordinating across different markets and jurisdictions, facilitating efficient cross-border lending transactions.

<u>**Technological upgrades**</u>

1. **Data integration**:
   - **Interoperability**: Ensure that lending platforms and systems are interoperable with other market infrastructure, including trading platforms, clearinghouses, and custodians, to facilitate seamless data exchange and transaction processing.

Regulatory changes

1. **Regulatory framework adjustments**:
   - **Shorter reporting timelines**: Adjust regulatory reporting requirements to accommodate the shorter settlement cycle, ensuring that all lending transactions are reported in a timely manner. For example: Substantial Shareholding Reporting (RG222) and ASX Securities Lending Reporting.

2. **Enhanced oversight and compliance**:
   - **Real-time monitoring**: Enhance real-time monitoring and compliance systems to ensure that all securities lending activities are conducted within the regulatory framework and to identify potential issues promptly.
   - **Risk management requirements**: Update risk management requirements for lending agents and borrowers to ensure they can manage the increased demands of a T+1 settlement cycle.

Operational Adjustments

1. **Accelerated timelines**:
   - **Loan and collateral settlement**: Redesign operational workflows to ensure that loans and collateral can be settled within the T+1 timeframe. This includes faster allocation, recall, and substitution processes.
   - **Intraday operations**: Enhance intraday operations to manage the increased volume and speed of transactions, ensuring that all activities are completed within the shortened settlement window.

2. **Liquidity management**:
   - **Real-time liquidity monitoring**: Implement systems for real-time monitoring of liquidity to ensure that lenders and borrowers have sufficient funds and securities available to meet settlement obligations.
   - **Intraday funding solutions**: Develop intraday funding solutions to provide quick access to liquidity as needed, reducing the risk of settlement failures.

Market participant readiness

1. **Stakeholder engagement**:
   - **Industry collaboration**: Foster collaboration among market participants, including custodians, brokers, and clearinghouses, to address common challenges and develop coordinated solutions.
   - **Client communication**: Communicate the changes and their implications to clients well in advance, providing support and resources to help them prepare for the transition.

13. What are the key changes that would need to be made to the CHESS batch settlement process to facilitate T+1 settlement (including potentially moving the batch settlement in RITS to later in the day)?

To facilitate a T+1 settlement cycle, changes are needed to the CHESS batch settlement process, including timing adjustments, technological upgrades, operational changes, regulatory adjustments, market participant readiness, and infrastructure enhancements.

These changes must be carefully planned and implemented to ensure a smooth transition and to maintain the efficiency and integrity of the settlement process. These changes are necessary to ensure the ASX can successfully move to a T+1 settlement cycle and enhance the competitiveness of the Australian financial market.

Timing Adjustments

2. **Settlement Batches**:
    - **Settlement batch times:** A move to T+1 is effectively a move to "T+½", without changes to settlement batch times and cycles there is only small windows for matching, instructing trades for settlement and problem resolution.
    - **CHESS opening hours**: It is expected that CHESS opening and processing times would be amended to allow processing during an overnight period and as such local interfaces to CHESS would also need to be enhanced to further automate message release and updates. Specifically, a pre-matching capability will need to be available well into the Australian night-time, to allow European and American investors the opportunity to review potential fails and reinstruct their agents. The changes here are not immaterial, the systems are generally designed to operate on batch cycles which requires overnight processing down time that will need to be considered.
    - **Extended CHESS settlement window:** Move the CHESS settlement window from 11:30am. ACSA members have varying views on the time of the settlement window, reflecting the broader industry's view that several options are viable (whether a later batch, multiple batches, etc.). As such ACSA as an organisation will not take a view on this point and we refer you to individual participant responses to consider the optimal approach.
    - **RITS (Reserve Bank Information and Transfer System) coordination**: Move the CHESS batch settlement in RITS to later in the day to allow more time for trade matching, confirmation, and any necessary corrections.
    - **Consider additional Settlement Windows**: ACSA members have varying views on the need for additional Settlement Windows, reflecting the broader industry's view that several options are viable (whether a later batch, multiple batches, etc.). As such ACSA as an organisation will not take a view on this point and we refer you to individual participant responses to consider the optimal approach.
    - **Debt market interoperability**: Consideration is needed to the interoperability of liquidity management for debt and equity markets when determining Settlement Windows and cut off times.

Attachment 1

<u>Enhanced trade matching and confirmation</u>

1. **Trade allegement and confirmation**
   - **Trade matching**: Identification, development and implementation of Pre-settlement matching processes and solutions using the hold and release model utilised in major markets across Europe and Improved end investor identification such as Trade Suite IDs used in the US.
   - **Matching timeline**: Pre-settlement matching process rule changes should be imposed requiring all pre-matching is completed by a certain time on Trade date, noting that this time will have to extend into the early morning to cater for the time zones of offshore investors.
   - **Irrevocable instructions**: Changes are needed to the way custodians instruct trades to CHESS for settlement. Today custodians are unable to pre-match trades due to the irrevocable nature of the CHESS instruction. Custodians need to ensure cash or stock is available in omnibus accounts today before alleging a trade. Custodians require a pre-matching capability that does not commit the custodian to settle the trade. The commitment to settle should follow in a different message format. The basic concept is that the existing flow of irrevocable matching and settlement should continue, but an additional step added in front which allows for market comparison of messages.
   - **Matching criteria:** Adoption of unique transaction references to facilitate more efficient (speed and accuracy) of matching processes.

2. **Faster trade matching**:
   - **Pre-settlement matching**: Enhance pre-settlement matching processes from front to middle and back offices to improve timeliness for all trade details are agreed upon and matched.
   - **Real-time trade matching and confirmation**: Trading platforms must be capable of matching and confirming trades in real-time to meet the accelerated settlement timeline.
   - **Real-time status updates**: Platforms that provide real-time status updates and notifications can help all parties stay informed and act quickly if discrepancies arise.

<u>Technology upgrades</u>

1. **Real-time processing capabilities**:
   - **High-speed data processing**: Upgrade CHESS systems to handle real-time data processing, ensuring that transactions are processed quickly and efficiently.
   - **Straight-Through Processing (STP)**: Enhance STP systems to automate as much of the trade lifecycle as possible, reducing the need for manual intervention.

2. **Reporting**
   - **Improved fail reporting**: Fail trade reporting and cash requirements will be required in a shadow settlement batch. Consideration of an alert service for participants to be alerted key times as to whether their current scheduled positions will result in an overdraw of their HIN.

3. **Identifying alleged traded:**
   - **Investor identification**: The use of unique investor reference data could be used to identify settlement parties where no instruction has been provided. This is being used in the US to assist with providing allegement messages to investors to assist with the identification of differences in trade settlement information such as consideration.

Liquidity Management:

1. **Credit limits and market liquidity:**
   - **Liquidity interrelationships**: Ensure the impacts are considered for any change to CHESS settlement windows and other interrelated cash transactions such as RTGS, Austraclear settlement, CLS settlement, large distributions and corporate actions, margining requirements, NZ market and payment times, and other rebalancing activities.
   - **Intraday liquidity monitoring**: Implement systems for real-time monitoring of liquidity to ensure that participants have sufficient funds to meet their settlement obligations.
   - **Participant limits**: Enable payment providers to set cash credit limits per participant (in the same way that Austraclear works today) to improve the efficiency of the batch process. This will give payment providers visibility of whether a participant limit will be met ahead of the batch or to put in place alternative funding and would enable payment providers to ensure that sufficient liquidity was available to support batch settlement.
   - **Funding Solutions**: Develop solutions for intraday funding to provide quick access to liquidity as needed, reducing the risk of settlement failures.

14. In the broader banking eco-system, what (if any) changes would be required to facilitate post-CHESS batch settlement processes?

To facilitate post-CHESS batch settlement processes under a T+1 settlement cycle, the broader banking ecosystem must align to meet the markets T+1 settlement needs. This includes enhancements to liquidity management, payment systems, and operational workflows.

Operating hours

- **Operating hours**: Ensure the operating hours of RTGS systems can accommodate the timelines, increased volume and speed of transactions under T+1 settlement.

Payment systems adjustments

1. **RTGS (Real-Time Gross Settlement) systems**:
   - **Limits:** Pre-determine limits would need to be set to facilitate RTGS movement of cash. Enable payment providers to set cash credit limits per participant (in the

same way that Austraclear works today) to improve the efficiency of the batch process. This will give payment providers visibility of whether a participant limit will be met ahead of the batch or to put in place alternative funding and would enable payment providers to ensure that sufficient liquidity was available to support batch settlement.

- **Approvals:** Any cash settlement post CHESS batch would need to process without requiring payment provider approvals where thresholds and limits are met.
- **New Zealand:** Consideration of continued overlap with the NZ market to allow for cross border transfers on the same day to occur.

<u>**Intraday Liquidity Management**</u>

1. Enhanced liquidity monitoring:

- **Liquidity interrelationships**: Ensure the impacts are considered for any change to CHESS settlement windows and other interrelated cash transactions such as RTGS, Australclear settlement, CLS settlement, large distributions and corporate actions, margining requirements, NZ market and payment times, and other rebalancing activities
- **Real-time liquidity monitoring systems**: Banks need to implement or upgrade systems to monitor liquidity positions ensuring that they can meet settlement obligations promptly.
- **Intraday funding solutions**: Develop intraday funding solutions such as lines of credit or intraday loans to provide quick access to liquidity when needed at high speed to meet the demands of a shorter settlement cycle.

<u>**Operational workflow changes**</u>

1. **Accelerated reconciliation processes**:
   - **Intraday reconciliation**: Enable reconciliation processes multiple times throughout the day to ensure that any discrepancies are identified and resolved promptly.
   - **Improved fail reporting**: Fail trade reporting and cash requirements will be required in a shadow settlement batch. Consideration of an alert service for participants to be alerted key times as to whether their current scheduled positions will result in an overdraw of their HIN.

Streamlined clearing and settlement:

- **Optimised clearing windows**: Adjust clearing windows to ensure that all transactions are cleared within the T+1 timeline, potentially moving batch processing to later in the day and aligning payment timelines.

15. Please provide perspectives from investors (both retail and institutional) regarding demand to move to T+1?

ACSA has not observed notable levels of demand for shortened settlement cycles from its members. ACSA members see the change driver is from regulators seeking to mitigate certain risks in longer settlement cycles, or risks that may arise because markets are out of synch with each other for settlement cycle timings.

ACSA sees different impacts for retail and institutional investors.

Retail investors tend to have pre-funding requirements for securities and cash or have established limits with brokers to enable their trading activities. The impact to retail investors is not expected to be significant.

Institutional investors fall into two camps – local and global.

- **Local investors**: It is expected that local institutions will seek to fund settlements on T+1 which will need to be factored into market timings for matching, funding, and liquidity. They will also be impacted where they participate in securities lending programs as deadlines for stock recalls will move and potentially need to be pre-trade. Local institutions will need to consider their operating hours to manage the shortened trade cycle.
- **Global investors:** It is expected that global institutions will be impacted more than local institutions due to the time zone differences and the potential need to pre-fund settlements, establish credit facilities or shorten FX trade cycles for liquidity management. Additionally, where securities lending transactions are involved, this will involve potential pre-funding well in advance of trade date. Global institutions may need to operate operations aligned to the Australian time-zone to minimise impacts.

The benefits of faster access to funds, reduced risk, and alignment with global market standards may present compelling reasons for investors to favour the change. However, the success of the transition will depend on the readiness and coordination of all market participants, effective communication, and addressing any potential operational challenges proactively.

16. Please provide information on the impacts of a move to T+1 in Australia on global investors (including investors who use intermediaries), and what pre-conditions or tools would need to be in place to support a move to T+1?

ACSA sees the changes noted in prior questions (particularly question 6 and 8) as being pre-requisites for the move to T+1 settlement.

Transitioning to T+1 settlement in Australia has benefits for global investors, including increased efficiency, reduced risk, and alignment with global standards.

However, it also poses operational challenges that need to be addressed through technological upgrades, regulatory adjustments, enhanced market infrastructure, and improved liquidity management. Effective coordination among all market participants and clear communication with investors are critical pre-conditions to ensure a smooth transition and to maximise the benefits of the new settlement cycle.

Market consultation:

1. **Consultation process:**
   - **Robust consultation**: ACSA expects there will be a robust consultation process prior to the creation of final structure and rules.
   - **Key considerations:**
     - **Back-to-back trades across markets** (where one market has a longer settlement cycle vs the other),
     - **Subscriptions and redemptions into funds**; **ETF trading** (where the ETF sponsor or authorised party may come under pressure because components of an ETF are off cycle from T+1),
     - **Program trading** and **block trading** both in and out of Australian listed instruments.
     - **Market nuances:** Removal of market nuances such as deferred settlement trading and the use of CUM/EX trading as an integral part of aligning with international best practice to increase STP rates.
   - **US market alignment:** Processes and rules need to be balanced against over-arching desire to align Australian markets with US markets and others that may have shortened their settlement cycles.

Benefits

1. **Increased efficiency and liquidity**:
   - **Faster access to funds**: Global investors, including those using intermediaries, will benefit from quicker access to funds, enabling more rapid reinvestment and improved cash flow management.
   - **Enhanced liquidity**: Quicker settlement cycles may improve overall market liquidity, allowing investors to manage portfolios more dynamically and respond faster to market opportunities.

2. **Reduced Risk**:
   - **Lower counterparty risk**: A T+1 settlement reduces the period during which counterparty default risk exists, enhancing market stability and investor confidence.
   - **Decreased settlement risk**: Shorter settlement cycles mitigate risks associated with price movements between trade execution and settlement.

3. **Alignment with global standards**:

- **Global harmonisation**: Aligning Australia's settlement cycle with major markets like the US enhances global operational efficiency and reduces complexity for investors operating across multiple jurisdictions.

Challenges

1. **Operational adjustments**:
    - **System upgrades**: Global investors and intermediaries need to upgrade their systems to handle faster settlement processes, requiring significant investment in technology and infrastructure.
    - **Process changes**: Internal processes related to trade matching, confirmation, and settlement need to be accelerated, which might require re-engineering workflows and retraining staff.
    - **Liquidity management**: Global Investors will need to refine funding mechanisms, including FX processes, to ensure cash is available to meet T+1 settlement and margining deadlines.
    - **Potential bottlenecks**: Any delays or bottlenecks in processing could have more pronounced effects under a T+1 regime due to the shorter settlement window.

2. **Time zone differences**:
    - **Coordination across time zones**: Global investors must manage the impact of different time zones, especially for those in regions with a significant time difference from Australia. This could necessitate extended operational hours or shifts in workflow to ensure timely settlement.

17. For investors requiring foreign exchange to fund trades, if Australia moved to T+1 would you be able to fund AUD bank accounts in time for daily settlement, and if not, what changes or solutions would be required to make this viable?

For investors requiring foreign exchange to fund trades, the transition to T+1 settlement in Australia poses significant challenges but is feasible with the right changes and solutions. By implementing intraday liquidity facilities, extending banking hours, utilising real-time payment systems, and engaging in pre-funding arrangements, the financial ecosystem can support the demands of T+1 settlement. Effective collaboration between banks, FX providers, and regulatory bodies is crucial to ensure a smooth transition and to meet the needs of global investors.

Current challenges

1. **Time zone differences:**
    - **International time zones**: Investors from regions significantly different in time zone from Australia (e.g., Europe, Americas) may find it challenging to complete

the currency conversion and transfer process within the same day due to the misalignment of business hours.
- **Operating hours:** Investors will need to adjust to T+1 settlement deadlines to manage their liquidity and funding needs. There is expected to be increased challenges with operations needed into weekends and holidays increasing the potential need to pre-fund.

2. **FX settlement timelines:**
    - **Standard FX Settlement Cycles**: Foreign exchange transactions typically follow a T+2 settlement cycle, which may not align with the T+1 settlement cycle for securities.

3. **Operational cut-off times:**
    - **Bank Cut-Off Times**: Banks have specific cut-off times for processing international wire transfers and currency conversions. These cut-off times may not be conducive to the shorter settlement window required by T+1.

<u>**Solutions**</u>

1. **Timing of CHESS Settlement batch:**
    - **Trade matching and confirmation:** Global investors would require high levels of STP of broker confirmations to ensure sufficient time to fund settlements
    - **Move settlement batch time:** Moving the CHESS settlement batch to a later time will increase the opportunity for funding to be in place or reduce the period intraday facilities are needed.
    - **Consider addition settlement batches:** Additional settlement batches may allow for improved management of intraday liquidity needs.

2. **Intraday liquidity facilities and credit lines:**
    - **Intraday funding**: Banks and financial institutions can offer intraday liquidity facilities or credit lines to investors, allowing them to meet their settlement obligations without waiting for the FX conversion to be fully processed.
    - **Temporary overdraft facilities**: Provision of temporary overdraft facilities in AUD accounts to cover the settlement amount until the FX conversion is completed.

3. **Extended banking hours and cut-off times:**
    - **Extended cut-Off times**: Banks can extend their cut-off times for processing international transfers and FX conversions to accommodate the needs of T+1 settlement.
    - **24/7 FX trading**: ACSA members offer highly effective automated FX trading on equity transactions that ensure funding and liquidity obligations are met .

4. **Pre-funding arrangements:**
    - **Pre-funding accounts**: Investors can maintain pre-funded AUD accounts in Australia. These accounts can be used to meet settlement obligations promptly, with subsequent replenishment through FX transactions.

- **Standing instructions**: Establish standing instructions with banks to automatically convert and transfer required funds to AUD accounts based on expected trade settlements.

18. Please provide further information on the impacts of a move to T+1 on issuers, including changes that would be required to support issuers in a move to T+1?

ACSA members have limited connectivity to the impacts of issuers but does make the following general observations.

Moving to a T+1 settlement cycle in Australia will impact issuers, necessitating changes in cash flow management, corporate actions, administrative processes, and technological infrastructure.

Impacts of a move to T+1 on Issuers

Cashflow management

1. **Improved liquidity**:
   - **Faster access to capital**: Issuers will benefit from quicker access to funds raised from equity issuance, improving their liquidity and ability to allocate capital efficiently.
   - **Streamlined operations**: Enhanced cash flow management due to faster settlement cycles, allowing issuers to better plan and execute financial and operational strategies.

Corporate Actions

1. **Shortened timelines**:
   - **Alignment:** All corporate actions will require alignment such that reply by date is always a day after record date for a T+1 market to be successful. This is a non-negotiable item for market efficiency in a T+1 space.
   - **Dividend payments and other distributions**: The timeline for processing dividends and other corporate actions will need to be shortened to align with the T+1 cycle, requiring more efficient administrative processes.
   - **Corporate announcements**: Issuers will need to ensure timely dissemination of information regarding corporate actions to meet the accelerated settlement deadlines.

Administrative and operational adjustments

1. **Enhanced systems and processes:**
   - **System upgrades**: Issuers will need to upgrade their financial and administrative systems to handle faster processing and settlement of transactions.

- **Automated processes**: Implementation of automated systems for processing trades, corporate actions, and investor communications to ensure compliance with the T+1 settlement timeline.

19. How much lead-time would your organisation (including service providers) require before implementation if a decision was made to move to T+1 in Australia?

ACSA members experience in overseas markets suggests a lead time of approximately 18-36 months is required for implementation of T+1 in Australia, although recent US experiences may help to reduce this to 12-24 months.

ACSA members note that resourcing multiple significant projects like CHESS Replacement and T+1 settlement could create pressure on market experts. Both of these initiatives have large impacts, and the same set of market experts would be best placed to work on both, however doing both simultaneously introduces risk to the market through the amount of change taking place in a relatively short time. Proper planning, investment, and coordination among market participants and with the CHESS replacement project will be crucial to ensuring a successful shift to T+1 settlement.

Considerations for Lead-Time include:

- **Complexity of Existing Systems**: ACSA members operate a range of systems through global technology frameworks which impact the time required for upgrades and testing.
- **Regulatory Approval**: Obtaining necessary regulatory approvals can influence the timeline, especially if significant changes to compliance frameworks are needed.
- **Market Readiness**: The readiness of other market participants, including exchanges, brokers, and clearinghouses

20. Is there any other feedback or information you would like to share?

ACSA members provided the following additional feedback:

1. **CHESS Replacement priority:** ACSA Members believe that the implementation of the CHESS Replacement system should take priority over the implementation of T+1 in Australia.

2. **Leverage CHESS Replacement project:** Technology changes and business rule changes required to support T+1 should be implemented as part of the CHESS replacement project which would enable a transition to T+1 to occur at a time after the implementation. This would enable participants to manage the technology and

testing effort in advance of the market deployment to minimize the change imposed on participants and end investors.

3. **Debt Market:** ACSA believes that the debt market should move to T+1 at the same time as the equity markets.

4. **Exchange traded derivatives and options:** ACSA believes that the Exchange Traded Derivatives and Options markets should move to T+1 at the same time as the equity markets**,** which will increase costs of implementation and system complexities.

5. **Corporate actions:** Additional automation in corporate actions could be achieved through improved digitisation of processes across market participants, including issuers.

ACSA
Australian Custodial Services Association

T+1 POSITION PAPER

**Insights from the
Australian Custodial Services Association**

March 2024

FORWARD

As the financial landscape evolves, the Australian Custodial Services Association (ACSA) continues to be at the forefront of discussions surrounding market infrastructure and settlement practices. In this rapidly changing environment, the topic of T+1 settlement has emerged as a significant point of interest and debate.

The move towards T+1 settlement represents a potential paradigm shift in how transactions are settled in the Australian market. It promises benefits such as reduced counterparty risk, increased efficiency, and enhanced market liquidity. However, it also raises questions and considerations that warrant thorough exploration and analysis.

To gain deeper insights into the sentiments and perspectives, ACSA conducted a survey of ASX participant members aimed at capturing their thoughts and opinions on T+1 settlement. This survey sought to understand the potential implications, challenges, and opportunities associated with transitioning to a T+1 settlement cycle.

The following paper presents the findings from this survey, providing a detailed overview of the diverse range of viewpoints expressed by our members. It is important to note that the views presented in this paper reflect the opinions of the respondents to the survey.

While the findings outlined in this paper offer valuable insights into the prevailing sentiments within our community, it is essential to recognise that the transition to T+1 settlement requires careful consideration of various factors, including regulatory requirements, technological readiness, and market participant readiness.

ACSA remains committed to facilitating open dialogue and collaboration among its members as we navigate the complexities associated with market infrastructure reform. The insights gathered from this survey will serve as a foundational resource for informing ongoing discussions and shaping future initiatives related to settlement practices in the Australian market.

David Travers
Chief Executive Officer
Australian Custodial Services Association

Introduction

The Australian Custodial Services Association (ACSA) is actively engaged in discussions regarding the transition to T+1 securities settlement across equity and bond markets in Australia. This move, with its anticipated benefits and challenges, represents a significant evolution in the industry.

The key benefits include a reduction in counterparty risk, enhanced efficiency, real-time communication, standardisation of timing standards, liquidity and funding benefits, and operational model optimisation. Moreover, ACSA sees the transition as an opportunity for Australia to align its market practices with global standards and engage in comprehensive re-engineering.

However, there are acknowledged challenges, such as an anticipated initial increase in fail rates, liquidity costs, extended operating hours, implementation costs, regulatory framework adjustments, and potential unintended consequences.

ACSA encourages learning from other international transitions and global markets moving away from T+2 settlement. Further, ACSA recommends collaboration across the value chain, training and education, a global support model, and leveraging data analytics for a successful transition.

While ACSA engages in T+1 settlement discussions, it encourages the need to balance it against key market infrastructure upgrades. The new "CHESS" replacement is expected to incorporate T+1 readiness, ensuring a seamless integration of the settlement cycle with market infrastructure upgrades.

This paper discusses the risks and considerations in T+1 preparation, emphasising market-wide preparedness, process enhancement, stakeholder readiness, understanding capital requirements, and global connectivity.

In conclusion, should market participants conclude for Australia to move to T+1, ACSA expectation is a seamless transition, emphasising collaboration, technological readiness, and strategic planning to navigate the complexities of this transformative journey in the global financial landscape.

Benefits of T+1 Settlement in Australia

ACSA has identified several key benefits that underscore the case for T+1 settlement:

1. Counterparty Risk Reduction:

- **Current Scenario:** Custody clients grapple with counterparty risk for a two-day settlement period.
- **T+1 Vision:** A reduction to one day in the settlement cycle significantly mitigates counterparty risk, fostering a more secure trading environment.

2. Enhanced Efficiency and Real-Time Communication:

- **Building on T+2:** Leveraging the gains from the previous transition to T+2, T+1 aims to boost Straight Through Processing (STP) rates and facilitate real-time communication between market participants.

3. Standardisation and Best Practices:

- **Formalising Timing Standards:** ·The move to T+1 seeks to formalise standard timing and best practices, including in areas like trade matching, thereby reducing exceptions and improving overall operational efficiency.

4. Liquidity and Funding Benefits:

- **Accelerated Settlement:** Investors gain quicker access to funds post-trade execution, and liquidity risk diminishes with reductions in margining and capital consumption.

5. Operational Model Optimisation:

- **Incentivising Change:** T+1 serves as a catalyst, encouraging stakeholders within the value chain to review and optimise operating models, aligning Australia with global standards.

6. Global Alignment and Re-engineering:

- **Strategic Positioning:** Australia can use the move to T+1 as an opportunity to align its market practices with global standards and best practices, transcending mere technology-based changes to comprehensive re-engineering.

Challenges and Considerations

ACSA highlights potential challenges that market participants need to consider:

1. Anticipated Increase in Fail Rates:

- **Initial Teething Issues:** ACSA acknowledges the likelihood of an initial uptick in fail rates, particularly in trade allocation processes and affirmations on the trade date.
- **EFT trading cycles:** Shortening the settlement cycle impacts EFT creation and redemption timelines for market makers.

2. Liquidity Costs and Funding Imbalances:

- **Same-Day FX Trading:** The shift to T+1 entails an additional day of funding costs, posing challenges in same-day FX trading and managing potential funding imbalances.

3. Extended Operating Hours and Staffing Costs:

- **Operational Dynamics:** Longer operating hours necessitate additional staffing costs, prompting a reassessment of operational models.

4. Implementation Costs and Legacy Technology:

- **Financial Commitment:** Preparing for T+1 involves significant implementation costs, including technology upgrades.

- **Legacy Challenges:** Ensuring that legacy technology and globally connected platforms can effectively manage the transition is crucial.

5. Regulatory Framework and Market Infrastructure:

- **Harmonisation Challenges:** Possible revisions to local market regulations and frameworks, coupled with the lack of harmonised industry standards, pose considerable challenges.

- **Global Connectivity:** Addressing time zone differences, payment and settlement market infrastructure operating hours, and the impact on foreign investors are critical considerations.

6. Corporate Actions and Unintended Consequences:

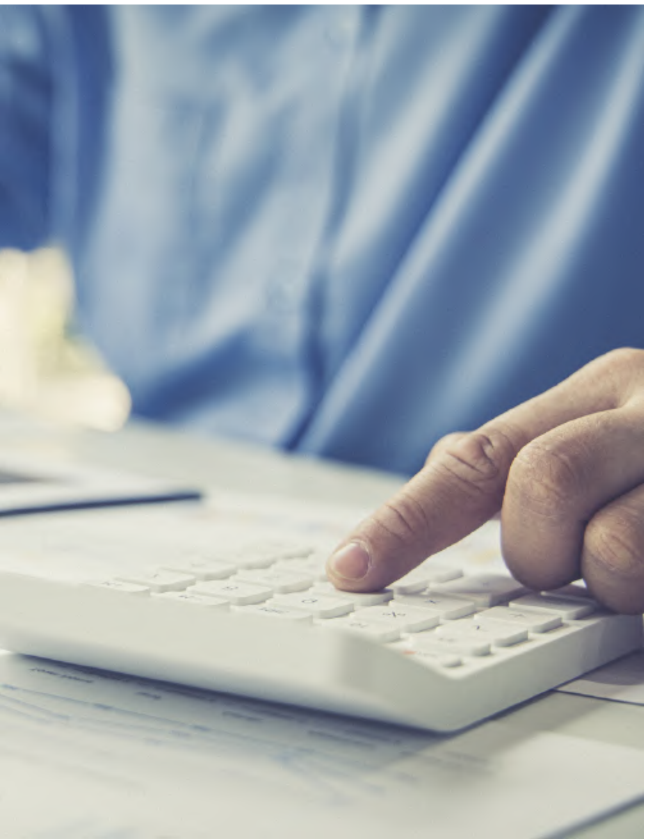
- **Alignment Challenges:** Corporate Actions processing faces hurdles in aligning effective dates and ex-dates across all events.

- **Risk of Trading Offshore:** Unintended consequences may include a possible drop in liquidity or the migration of trading offshore.

Australia in the Global T+1 Landscape

With global markets moving away from T+2 settlement, Australia's alignment with T+1 appears increasingly inevitable, and ACSA emphasises the need for Australia to stay abreast of international standards. As the United States transitions to T+1 in 2024, Australia stands to benefit from observing the global implications.

ACSA acknowledges the activities in markets globally and the importance of collaboration, effective communication, and industry support.



1. Global Transition Trends:

- Global shifts away from T+2: According to a recent whitepaper on market trends, 89% of respondents anticipate a global shift away from T+2 settlement in the next five years.
- Australia's Positioning: With markets in the Americas and Europe making strides toward T+1, Australia may find itself compelled to align with international standards.

2. Learning from International Transitions:

- Lessons from India: ACSA advocates drawing insights from India's move to T+1, where improvements in accuracy, quality, and timeliness of information were observed post-initial challenges.
- Observing China and Hong Kong: ACSA recommends studying China's T+0 and Hong Kong's T+0/T+1 Stock Connect processes for valuable lessons in collaboration and effective communication.
- Monitoring US market changes: ACSA recommends closely monitoring the May 2024 transition in the US to understand the challenges and implications for change in Australia.

Australia in the Global T+1 Landscape (Cont)

3. Strategies for Successful Transition:

- Collaboration Across the Value Chain: ACSA emphasises the importance of collaborative efforts across regulators, market participants, custodians, and global investors to understand pain points and best practices.
- Training and Education: Effective communication, training, and education sessions are deemed critical for equipping market players and investors with the necessary knowledge for a smooth transition.

4. Other Considerations:

- Global Support Model: ACSA suggests a unified approach across geographical locations to support global clients.
- Data Analytics and Robust FX Programs: Enhancing investor understanding of historical trends to mitigate risks will be critical through the use of data analytics tools and robust FX and funding programs,

Prioritising T+1 vs. Market Infrastructure Upgrades

While T+1 settlement is crucial, ACSA emphasises the need to balance it against key market infrastructure upgrades.

1. Global Trends in Financial Market Infrastructures (FMIs):

- Market feedback: Accelerated settlements (to T+1) emerged as the top change impacting FMIs across European, Asia Pacific, and North American markets.
- Decoupling Considerations: ACSA underscores the importance of decoupling considerations for T+1 and market infrastructure upgrades, balancing the benefits and efforts of each.

2. Technological Readiness and the New "CHESS" Replacement:

- Holistic Integration: The new "CHESS" replacement should ideally incorporate T+1 readiness, ensuring a seamless integration of the settlement cycle with market infrastructure upgrades.

3. Infrastructure Readiness:

- Technological Preparedness: ACSA emphasises the importance of ensuring technological preparedness across intermediaries and market infrastructure, capable of handling increased transaction volumes associated with T+1.

4. Investor Assurance and Market Changes:

- Parallel Implementation: ACSA asserts that market changes required to support T+1 should be implemented in tandem with infrastructure upgrades, ensuring a synchronised transition.

Risks and Considerations in T+1 Preparation:

Preparing for T+1 involves a comprehensive, market-wide effort beyond settlement concerns. ACSA recommends:

1. Market-Wide Preparedness:

- Adequate Timeline: Preparing for T+1 requires a market-wide, precautionary approach, considering the scale of change required for all parties involved in the securities and cash processing chain globally.

2. Process Enhancement and Stakeholder Readiness:

- Enriching Processes: ACSA recommends enriching existing processes and market functionalities ahead of the T+1 transition.

- Stakeholder Inclusion: Ensuring all ecosystem parties, including payment systems, are ready for the change by providing sufficient information for adequate testing is imperative.

3. Understanding Capital Requirements and Impacts on Strategies:

- Capital Considerations: A clear understanding of expected capital requirements is crucial to determine the benefits of freeing up capital for other uses.

- Strategic Impacts: Assessing the impacts of new standards and technologies on market practice and participant strategies is essential.

4. Global Connectivity and Offshore Funding:

- Funding Dynamics: Factoring in the funding of trades by offshore clients and their readiness for timing changes is paramount.

- Market Construct for Dual Markets: Considering the move of the NZ market to T+1, ACSA highlights the potential resource implications in managing both markets undergoing transitions.

5. Organisational Constraints:

- Resource Implications: Plan for potential resource challenges, especially if managing multiple markets undergoing T+1 transitions.

Conclusion and ACSA's Vision for a Seamless T+1 Transition

As Australia considers the next great step in market efficiency and risk reduction the vision for a seamless transition to T+1 settlement emerges.

The detailed benefits, challenges, and strategic considerations paints a comprehensive picture of the complexities involved in this transformative journey.

Emphasising collaboration, technological readiness, and strategic planning, ACSA's insights provide a roadmap for Australia's financial industry to navigate the intricacies of T+1 settlement and emerge resilient in the global financial landscape.

About the Australian Custodial Services Association (ACSA)

The Australian Custodial Services Association (ACSA) is the peak industry body representing members of Australia's custodial and investment administration sector. Our mission is to promote efficiency and international best practice for members, our clients and the market. ACSA works with peer associations, governments, regulators and other market participants on a pre-competitive basis to encourage standards, process consistency, market reform and operating efficiency. Established in 1994, ACSA members currently hold assets in excess of $4.5 trillion in custody and under administration for Australian institutions (at 31 December 2024).

The key sectors supported by ACSA members include large superannuation funds and investment managers, as well as other domestic and international institutions. Custodians provide a range of institutional services to clients including traditional custody and safekeeping, investment administration, foreign exchange, securities lending, transfer agency, tax and financial reporting, investment analytics (risk, compliance and performance reporting), investment operations middle office outsourcing and ancillary banking services.

www.acsa.com.au

Important Note

ACSA works with peer associations, regulators and other market participants on a pre-competitive basis to encourage standards, promote consistency, market reform and operating efficiency. The views expressed in this paper are prepared by ACSA and should not be regarded as the views of any particular member of ACSA.
The comments in this paper do not comprise financial, legal or taxation advice.

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