



19 June 2024

Mr Andrew Jones
General Manager Equities
ASX Limited
20 Bridge Street
Sydney NSW 2000

By email.

Dear Mr Jones

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

AFMA commends ASX's extensive and well-considered work in relation to the potential to move to T+1 for the Australian listed market.

ASX has properly engaged with the wider market including the relevant OTC markets and foreign exchange committees. We believe this work has been beneficial in increasing the understanding of T+1 relevant matters by both ASX and the broader market. The work has also explored the interaction with the important context of CHES replacement.

While there remain a range of views on T+1 and related matters within the AFMA membership, we believe there has been a significantly increased level of commonality particularly around some key decision points.

Members note that the data from the US experience is helpful and the early transition there appears to have gone well. Members note, however, that the main challenge for Australia in the timing difference to major markets, is not present in the case of the US markets.

AFMA strongly supports measures to improve settlement timings, efficiency and resilience. These apply across the relevant markets including OTC cash, repo, and listed securities. Improvements to early/pre-matching, trade tracking, automation, SRN lookup processes, RITS system windows, and other operational matters will be of benefit to the market regardless of whether the market moves to T+1. If the market does move to T+1 these changes may be essential.

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Complexities and potential benefits

While AFMA does not have a consensus position on whether Australia should move to T+1 we note the following complexities and potential benefits that members are considering. We see these as broadly consistent with the factors ASX has considered through its process.

Complexities

- Time zone challenges for a move to T+1:
 - For US clients it is still T0 at 11:30 am the following day in Australia.
 - ADR conversion challenges for dual listed stocks.
- Members note that US stock corporate actions could create difficulties for Australian holders to participate depending on issuer timings.
- Significant changes to systems will be required – this will require at least an 18 month implementation period.
- The change must be coordinated with NZ equities, Australian cash repo and other relevant markets.
- Some firms report clients are not requesting the change.
- Current fail rates are very low and these may increase with a shorter settlement cycle.

Potential benefits

- A need to meet international investor expectations for delivery:
 - Members note the expectations for US clients might drive facilitation of brokers providing early settlement services.
 - Dual listed securities may avoid decreased local interest compared to foreign T+1 lists.
- Alignment with leading international markets could assist with optics, and competition should regional competitor jurisdictions move to T+1.
- There should be a pass through of cost benefits to participants and investors. We note there was no pass through on the change (outside of margin) from T+3 to T+2 and a net change from T+3 to T+1 must result in efficiencies for investors beyond margin savings in areas including a reduction in capital requirements, and clearing and settlement fees.

AFMA members are turning their minds to the functioning of the SBL market and the potential timing of pre-match for ordinary trades, and the need to update rules for ETO assignments, and timings for SRN enquiries.

We expect the CHES batch will be moved to later in the day, members are supportive of maintaining a single batch approach.

Regional competition considerations for timing

We note that putting to one side the question around *whether* Australia should move to T+1, a key consideration becomes whether not moving to T+1 prior to CHES completion would place Australia at a competitive disadvantage.

The key competitors that are relevant to this question include Hong Kong, Singapore, and Japan. At this time, we do not believe there is any public positioning by exchanges in these jurisdictions¹ around moving to T+1, although we understand they are actively monitoring developments and this public positioning could change.

If one or more of these jurisdictions did announce an intention to move to T+1 we expect an implementation period of ~2 +1 or 2 years, suggesting perhaps 2026/7 if an announcement was made in the next 6 months. The earliest realistic timing for T+1 in the context of the CHES project would be following Phase 1 in 2028. The earliest timing for T+1 following CHES would be Q2 2029.

There are a range of views on the scale of any net potential jurisdictional competitive disadvantage should competitor jurisdictions move to T+1 before Australia but it might best be considered as at the margins.

Interaction with CHES replacement

AFMA appreciates the importance of completing the CHES replacement in the context of T+1. AFMA understands that CHES replacement is a top priority for the relevant regulators, and that any delay will attract an increased period of scrutiny.

AFMA also appreciates that with any delay there is a small but undesirable increase in the risks associated with operational throughput for existing CHES and that avoiding any such increase is in the interest of the market as a whole. The replacement of CHES is understandably a top priority and reasonably seen as more significant than any potential jurisdictional competition costs in the medium term.

Conclusion

Please find our responses to the questions below. We would be pleased to assist with any further matters in relation to this proposal.

Yours sincerely



Damian Jeffree

Head of Financial Markets, Exchanges and Digital

¹ Excluding the Stock Connect link which at T+0 is as the paper notes “a fundamentally different proposition to T+1”.

Responses

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?

AFMA members have a range of views on the effects of moving to T+1. Please see discussion in our letter.

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

AFMA members have a range of views on the effects of moving to T+1. Please see discussion in our letter.

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)?

N/A.

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)?

Members report the uplift in technology across multiple markets (including Listed equities, Repo, OTC Cash) would be substantial.

It is considered that some of these investments would benefit the market outside of a move to T+1.

Given the scale of investments needed sufficient notice and planning time is required should a decision by the market be made to move to T+1. A minimum of 18 months is suggested.

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

This will vary by member.

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

There are a range of views on this question.

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

AFMA members report that a move to T+1 is possible as long as sufficient lead time is provided.

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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?

Members suggest that changes in timing to the CHES batch would be required. Members have also suggested that SRN response times should be standardised.

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?

No comment.

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

No comment.

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

No comment.

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?

No comment.

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

AFMA supports moving the CHES batch later in the day.

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

Cash market availability may need to be extended. This may require revisions to RITS availability and timings.

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

AFMA members have a range of views on this question. While some members report no client either institutional or retail are for a move to T+1 others raise concern about this demand arising as the international standard moves to T+1 for major markets. Please see discussion in our letter.

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?

Global investors will benefit from a move to T+1 from earlier delivery and alignment with leading international jurisdictions, but may have challenges given that for US investors it is still T 0 at 11:30 am the following day in Australia.

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?

N/A.

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?

N/A

Two additional questions:

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?

Members report at least 18 months would be required.

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

Please refer to the discussion in our letter.