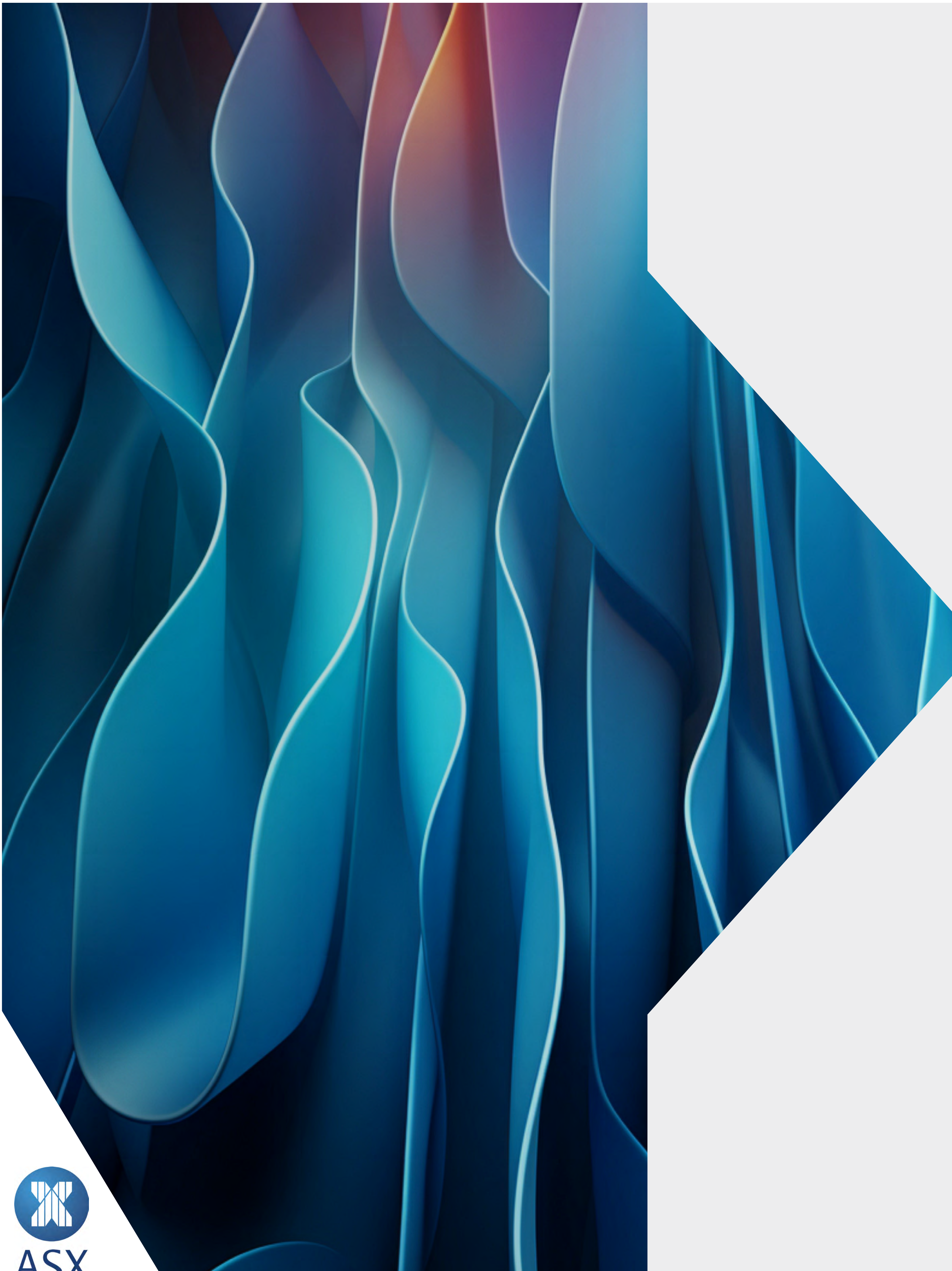
Considerations for accelerating cash equities settlement in Australia to T+1

Whitepaper Feedback Summary

August 2024



ASX

Contents

1/ Executive summary

The Australian financial market is considering shifting its cash equities settlement cycle from T+2 to T+1, mirroring moves by India, the US, Canada, Peru, Argentina, Jamaica, and Mexico. While this transition potentially creates efficiency gains, there are complexities and diverse stakeholder perspectives including time-zone considerations and technological challenges unique to Australia. ASX has conducted extensive stakeholder engagement, including inviting views through a Whitepaper process and hosting forums to gather feedback to foster industry consensus on the suitability of adopting T+1 settlement.

ASX, with input from the Business Committee and the T+1 Working Group, will use the summarised feedback in this document to shape Australia's approach, considering global perspectives and strategic implementation considerations for a possible T+1 transition.

Submissions received

ASX published an industry Whitepaper on 23 April 2024 to obtain industry feedback on strategic considerations for a potential transition to T+1 settlement in Australia.

The forty responses received were diverse, and represented a broad selection of stakeholders. ASX thanks all stakeholders who provided written feedback. Non-confidential responses are contained in Appendix A.

40* industry responses

- **25** - Brokers, Clearing & Settlement Participants
- **3** - Listed Entities & Investment Product (ETF) Issuers
- **6** - Industry Associations
- **6** - Payment Banks
- **2** - Super Investment & Fund Managers
- **1** - Approved Market Operators
- **2** - Securities Lenders
- **3** - Software Providers
- **2** - Other

**Some respondents have been counted more than once when examining individual cohort views as there are certain organisations that are categorised as multiple cohort types e.g. a clearing & settlement participant as well as a payment bank.*

2/ Global update

August 2024

ASX continues to engage closely with global markets, notably with the US and Canada.

In early 2023, India moved to a T+1 settlement cycle. In May 2024, six markets transitioned their securities settlement cycles from T+2 to T+1, starting with Canada, Argentina, and Jamaica on 27 May, followed by the US, Mexico, and Peru on 28 May.

The successful transition of the US has set a precedent and influenced the global trajectory and potential plans for other markets.

North America - in focus

Market infrastructures, custodians, brokers and fund managers have not reported major open issues associated with the move to T+1, with most firms now running in normal operational mode.

In the weeks prior to the transition, market participants reported a significant increase in automation and affirmation rates – as firms rushed to avoid an increase in manually-driven errors. Concerns around securities lending processes were also a factor in firms' being conservative with their programs.

Post transition, few of these concerns materialised. While minor issues were observed in the first few days of T+1 (including low affirmation* rates from Asia and delayed settlements by some custodians), affirmation rates quickly rose to above 95% globally and a spike in trade fails was avoided.

Having completed public holidays, an index rebalancing as well as several corporate action deadlines, the market is entering into a new phase of business as usual. Foreign exchange (FX) appears to be working normally within existing market deadlines. Securities lending recalls are operating successfully (despite a continuing lack of clarity on market cut offs) and settlement rates have exceeded pre-transition levels in some cases. Firms are focusing on projects to improve data visibility as well as re-launching projects that were delayed in the immediate run up to the May transition.

From a program management perspective, 39 months of communication was widely acknowledged as critical to success.

From a process perspective, the importance of trade affirmations was considered fundamental in enabling faster settlements, with fewer exceptions.

Looking ahead

As the initial phase of the T+1 transition winds down, investment managers appear to be taking an active role in driving T+1 in Europe, driven in part by the ongoing funding cost disparities between US and overseas stocks.

The UK has issued firm dates for its 2027 transition supported by operational changes in 2025, and has highlighted considerations such as higher foreign investor turnover and emphasising potential FX and funding challenges. European authorities will confirm their approach by the end of 2024.

Beyond the UK, the smooth transition has also sparked discussions in major Asian markets like Hong Kong, Singapore, and Japan, with regulators exploring a coordinated Asia-wide move to T+1.

**An affirmation is the process in which trade instructions and confirmations are verified by the two parties to allow for eventual settlement. With the shortened settlement cycle, the SEC has implemented certain rules to support best practice.*

3/ T+1 in Australia

Our objective

The Whitepaper published by ASX, with input from the T+1 working group, sought feedback from diverse stakeholders to assess the feasibility and implications of transitioning to T+1 settlement in Australia, emphasising strategic considerations, market-specific factors, and global alignment.

Whilst the Whitepaper did not address detailed implementation steps, timing decisions aligned with CHESS replacement Release 1 and Release 2 or industry-specific business justifications, ASX's Consultation paper on CHESS replacement Release 2, released alongside this summary, integrates industry feedback and internal ASX analysis to guide industry next steps.

What we heard

The whitepaper feedback indicates that the market has two key positions:

1. That Australia adopt a T+1 settlement cycle to align with global markets; and
2. It advises against implementing T+1 simultaneously with replacing CHESS due to the substantial industry effort required.

Additionally, while the transition to T+1 is not urgently required, there is a need to find the balance between the safe delivery of CHESS replacement and alignment with global markets.

ASX indicated in the whitepaper that there were various sequencing options for the timing of a potential move to T+1 settlement. An immediate adoption of T+1 would allow alignment to other global markets however the market noted this would incur a disruption to the current CHESS replacement timeline and significant technological challenges that would arise in light of going forward ahead of Release 2.

The market responses show a clear prioritisation of the CHESS replacement project in the coming years. To successfully migrate to T+1 with minimal risk and disruption, the entire post trade ecosystem needs to be reviewed to ensure that the necessary time and operational synergies are achieved. The market requires clear direction on a T+1 solution and implementation timeline.

Transitioning to T+1 concurrently with CHESS replacement could strain stakeholders due to cost, resource allocation, and project priorities, posing high risks to successful implementation of CHESS replacement, the market's primary focus.

Market respondents noted that there is a need for ongoing consultation particularly around the solution design. Further planning, coordination, communication and education with stakeholders is fundamental for a successful transition.

Industry Position

The information provided to ASX stressed the market's commitment to ensuring the safe and successful implementation of CHESS Replacement. While further discussions are needed on the T+1 solution and implementation plan, it is evident that the market recognises and values the critical priority of CHESS Replacement ahead of additional developments or projects.

4/ Responses to Whitepaper questions

4.1 Capital flows to and from Australia

Q1. Would a decision to adopt, or not adopt, T+1 settlement affect the Australian market's international competitiveness as a destination for foreign investment?

Q2. Would Australia staying on T+2 pose any restrictions on trading volumes for trading participants?

High level summary of capital flows

Views relating to the impact on the international competitiveness of Australia as a destination for foreign investment were mixed.

Some respondents, including an industry association and domestic retail brokers, were of the view there is not a significant difference in competitiveness for overseas investment in operating between T+2 (effectively T+1.5 and less for those in later time-zones) and T+1 (assuming batch settlement time would move to later than currently). However, these respondents did acknowledge that dual-listed securities within Australia and New Zealand could be challenged in the event of asymmetric settlement cycles. Some respondents added that investment decisions tend to be agnostic of settlement cycles unless there are operational impediments or additional costs. Expanding on this, there was a view that harmonised settlement cycles reduce complexities and costs which could therefore have the potential to influence investment decision making.

Some respondents were of the view moving to T+1 settlement would enhance Australia's international competitiveness by enabling an efficient, safe, resilient and integrated post-trade environment. Conversely, several respondents noted that for international investors trading into Australia, T+1 effectively means T+0, which due to time-zone challenges could potentially restrict system investments and operational changes.

Views relating to the potential impact to trading volumes for trading participants, should Australia remain on T+2, were mostly aligned across respondents that short term impacts were not expected, but this would be challenged as more and more markets transition to T+1 over time. Some noted that the scale of the misalignment would be more impactful when other markets transition to T+1 (e.g. Asia and Europe) if Australia is left behind. One respondent indicated that there could be reduced trading after a move to T+1 as high frequency traders could have less scope to offset settlements in the shorter period.

A common theme across all respondents was the significance of the alignment between Australia and New Zealand given the universe of dual-listed stocks and the interdependence this creates.

Industry Position

In the short term stakeholders agree that there would unlikely be a material change to Australia's competitiveness or volumes.

Longer term, opinions varied between those indicating that investment decisions tend to be agnostic of settlement cycles and those indicating that this view could be challenged as other regions and markets continue to transition to T+1. Those advocating for T+1 argue that Australia's reputation and competitiveness will be enhanced by aligning to other global markets.

4.2 Settlement Risk

Q3. 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)?

High level summary of settlement risk

There were mixed views on the likely impact to organisations fail rates related to moving to T+1.

Some respondents were of the view no material change would be experienced, especially after any initial transition issues are resolved. They referenced the reduction in India's fail rates as well as the fact that fail rates in the US have remained steady, however acknowledged that those jurisdictions faced fewer time-zone challenges than Australia.

Conversely, whilst difficult to quantify, many respondents were expecting an increase in their fail rates due to Exchange Traded Options (ETO) assignment activities, offshore transactions and instructions (due to time-zone differences) and potential reduction in securities lending availability due to recall limitations.

Many respondents noted that a well planned, timed and communicated industry wide implementation project would reduce the risks of an increase in the fail rate in addition to the following mitigating activities and industry enhancements:

- ETO exercise automation and timing considerations;
- Extended operating hours to support booking and allocation processes;
- Pre-matching capabilities for custodians and additional identifiers;
- Changes to investor payment methods, such as moving away from direct debit to cash account or pre-funding requirements; and
- Efficient clearing and settlement system capabilities.

A key point raised in feedback was that failures were often the result of administrative errors. To reduce this, operational enhancements and industry alignment on processes would be required. In addition, some respondents suggested implementing a grace period for fail fees during the initial phases of T+1 adoption.

Industry Position

Overall, while opinions vary, stakeholders generally agree that a move to T+1 settlement in Australia would necessitate significant adjustments in operational processes and technology to mitigate potential increases in settlement failure rates, especially considering offshore transactions and time-zone challenges. Further well planned and timely industry wide planning, education and communication will be critical.

4.3 Operational risk and processes

Q4. 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)?

Q5. What technology upgrades would your organisation (and clients) need to do to support T+1?

High level summary of operational risk and processes

The views on scale of investment and technology change to move to T+1 settlement were quite varied across respondents based on their individual technology stacks and global operating models supporting trade processes.

Some respondents, including software vendors and vendor backed clearing and settlement participants, emphasised that despite numerous touch points, their systems can be configured for T+1 settlement without requiring technology changes. They did, however, acknowledge the importance of extensive organisational testing. Conversely, many respondents highlighted that transitioning to T+1 settlement in Australia would necessitate substantial investments in technology upgrades.

In addition to technology changes, material expenditures are expected for resources to complete process redesign, extensive testing with integrated upstream/downstream systems and processes and training. Education of clients, investors and adviser networks would require additional time and investment.

Most respondents agreed that T+1 readiness would not be restricted to isolated system changes, but rather there would be a need to review the entire post trade value chain (front to back) and the sequencing of components within the chain. The number of touch points varies between organisations and the final solution would determine the business and technical requirements which would then impact the time required as well as the costs.

Most respondents indicated that costs have yet to be fully determined, however considered that moving to T+1 would be a significant to large undertaking. With regards to timelines these ranged between 6 months to 3 years, with most respondents landing at the latter half of the range i.e. 24 – 36 months following cross industry analysis or finalisation of the solution.

The ability for respondents to leverage work and lessons from other markets having transitioned to T+1 is varied. Some respondents indicated that they could draw upon the work that related entities abroad have performed whereas others indicated that they are unable to benefit from this other global transitions, and therefore a longer runway will be required.

Q6. What market-wide technology or infrastructure adoption would be needed to support a move to T+1?

There were strong views from industry on the need to leverage global markets standards of technology and infrastructure. In addition, most respondents indicated that the interplay between T+1 and CHESS replacement needs to be carefully considered to minimise changes to the market.

Most respondents indicated that the following would need to be considered and resolved in order for respondents to have the capacity to manage to any transition to T+1:

- the timing of CHESS replacement and the interplay of T+1;
- resources and funding;
- client and vendor readiness; and
- dependencies on prioritisation of global systems requiring change.

Respondents also indicated that the following changes should be considered to support transitioning to T+1.

Trade matching and affirmations:

- Delivering enhanced trade confirmation processes, including the ability to link affirmations with settlement matching as well as the application of tools to avoid double matching.
- Application of Universal Transaction Identifiers to provide transparency and an additional matching criteria to ensure transactions are uniquely linked.

Market infrastructure:

- CHESS operating hours and the need for this to be extended.
- Settlement batch times and the need for optimal timing to be agreed.
- Messaging protocols and the need to transition to standard messaging protocols such as SWIFT, FIX and ISO to support communications with global investors.
- Option exercises and assignments: improvements to option exercises and assignments, noting that later notifications in current CHESS requires workarounds that will no longer be fit for purpose in a T+1 environment.
- Real Time Gross Settlement (RTGS): Real time DvP (delivery versus payment) settlement availability outside of the batch.
- RITS and ensuring its readiness at the appropriate time in the settlement cycle; and
- Improved fails reporting including the need for failed trades projections as well as the resulting cash impacts.

Margin calls and collateral

- Cash margins - it is anticipated that T+1 will result in an end of day call in addition to intraday calls.
- 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. It is expected that the Reserve Bank of Australia (RBA) would be required to make changes to facilitate same day margining.

Q7. What could impact your organisation's capacity to move to T+1?

Many respondents noted internal funding approval not aligned with project deliverables could impact their organisation's capacity to move to T+1, including conflicting priorities with CHESS Replacement, key resource availability and adequate time to analyse, develop and test which are critical for a move to T+1.

Given known upgrades and system changes such as ASX Services Release 15, Cboe's proposed listings framework and CHESS replacement, there would be significant investment in resource capability required to simultaneously undertake implementation and testing of T+1.

Respondents were of the view that such simultaneous investment is not feasible and resource capacity will be stretched.

Industry Position

T+1 would be a large undertaking and would require a review of the entire post trade ecosystem. Any T+1 solution design would need to be underpinned by robust technological solutions, and extensive testing, training and education. Importantly any transition to T+1 needs to solve for existing and anticipated operational risks to ensure stability of the ecosystem.

4.4 Trading activity and middle office

Q8. 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?

High level summary of trading activity and middle office

Feedback received supported trade matching and confirmation capabilities to facilitate and streamline post-trade processing workflows. Further feedback indicated that this should be supported by operating rules, clear guidelines and timelines.

Some respondents reiterated the need for pre-matching capabilities with additional matching identifiers. Consideration of a hold and release function would be beneficial in supporting trading activities and middle office processes.

Standardised messaging and improved straight-through processing play crucial roles in reducing errors and operational risks. Allocating funds for offshore fund managers during order receipt and carefully considering batch cut-off times, especially relative to New Zealand, are considered critical for dual-listed stock settlements.

Some respondents noted that other timing considerations related to ETO exercises and changes to operating hours to support booking allocation and pre-matching processes would need to be considered.

In addition to technology solutions as a primary enabler for change, communication and industry alignment is essential to ensure that all market participants are adequately prepared, to minimise disruptions and maximise the benefits of a shorter settlement cycle.

Industry Position

The responses highlighted the need to strengthen trade matching and confirmation procedures through explicit operational guidelines and deadlines. Suggestions included introducing pre-matching functionalities with enhanced identifiers and a hold-and-release mechanism to streamline middle office workflows and reduce errors, alongside advocating for standardised messaging and improved straight-through processing to enhance efficiency and minimize interruptions in dual-listed securities settlements.

4.5 ETF management

Q9. 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?

High level summary of ETF management

ETF issuers agree that, over the longer term, Australia should transition to a shorter settlement cycle to lower settlement failure risks, improve market liquidity and align to global standards. However, there are mixed views as to the optimal timing of when a transition to T+1 should take place. The majority of respondents indicated that a transition to T+1 in Australia would be best to occur after most major markets are aligned and have transitioned to T+1, and once the various operational and technical upgrades required to support business readiness have been implemented.

Respondents indicated that it would be important to minimise settlement gaps with other major jurisdictions. As long as Australia remains on T+2 and other markets have transitioned to T+1, the challenges will be limited to the unit creation process, where existing workarounds are currently in place. In the scenario that Australia has moved to T+1 but other significant markets remain on T+2 the challenges will also expand to include the unit redemption process, which issuers have indicated will cause bigger operational and legal risks. These respondents also indicated that any migration to T+1 would need to be complemented by operational and technological upgrades that can alleviate the various issues outlined in the whitepaper. Further details regarding what these measures would be in a T+1 or T+2 environment are addressed in the summary of responses to question 10 and question 11 below.

Reinforcing the need for operational and technological upgrades, several non ETF issuers indicated that in the absence of any uplift to processes, T+2 would be the better option for the asset class being ETFs, given the time-zone challenges, the related risk and workarounds required to support the market.

Q10. In the event that Australia adopts T+1, what potential measures need to be considered to alleviate the challenges for ETF issuers?

Respondents highlighted that a later batch settlement cut-off time would help to alleviate the challenges associated with time-zone differences. In addition, this would allow sufficient time for the application of final Net Asset Values (NAVs), which would reduce the number of manual adjustments and true-ups that are currently required.

Other measures included:

- Consider solutions to support settlements arising from cash true-ups due to the application of estimated NAVs;
- Investment in straight through processes that can manage increased operational pressure and reduce the risk of settlement failures. This would need to span across issuers, participants, custodians and share registries;
- Establishing facilities such as real time cash settlements outside of batch processing;
- Improvements to workflow items for the holding adjustments of ETFs reported by registries to ensure custodial records are updated in a timely manner; and
- The market making process related to the application and redemption of units would require an uplift. The process is currently manual requiring the completion of forms with multiple signatures and faxes.

A respondent raised the question as to whether it was possible for T+2 redemptions to be maintained for those markets that remain on a T+2 settlement regime and whether there would be an opportunity for a low cost borrowing facility to cover T+1 redemption proceeds in the scenario that there are mismatches to other global markets.

Q11. 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?

In addition to the measures noted in response to question 10, respondents identified that the following measures required to support ETF issuers, in the event that Australia remains on T+2:

- Changes to Austraclear processing cut-off times needs to be considered in the case where NAV estimates are relied on and cash collateral is provided. The ability to transfer cash should be extended into the evening.
- Potential rule changes for the timeliness of reporting the market making portfolio construction file trades so that NAVs can be finalised earlier.

Industry Position

The ETF industry accepts that over the long term T+1 best fits the needs of the Australian market. However, any T+1 transition needs to be carefully managed and underpinned by the required level of operational and technological support. Optimal transition timing would need to be agreed to minimise challenges for both unit creations and redemptions. Clear communication, collaboration as well as technological and process enhancements will be key to ensuring that the Australian ETF market remains competitive and resilient.

4.6 Securities lending

Q12. 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?

High level summary of securities lending

Respondents indicated that the securities borrowing and lending (SBL) market is a critical component of the financial ecosystem to maintain low settlement fail rates.

Some respondents indicated that the available lending pool could shrink in a T+1 environment. Their view was that the accelerated settlement timeframes could impact the availability of lendable securities or the willingness of participants to lend securities. Recall activities were also called out as being affected by timing considerations due to the reduced opportunity to source alternative cover. Corporate action timelines and their impacts to recall activities would also require a focused review.

Many advocated for ASX to introduce a centralised securities lending platform or to assist with last resort lending opportunities and enable real-time transaction matching. However, concerns were expressed by stakeholders regarding potential burdens on market participants and they emphasised the need for coordinated timing and communication during implementation. In addition, regulatory reporting requirements to accommodate the shorter settlement cycle would need to be reconsidered.

Respondents also agreed that to mitigate potential risks associated with a shorter settlement cycle, changes should be in place ahead of T+1 including technological upgrades, regulatory adjustments, operational processes, market participant readiness and market infrastructure improvements.

Industry Position

Various respondent perspectives regarding securities lending highlight complex challenges and underscore the necessity for enhanced infrastructure, technological upgrades, regulatory adjustments, and operational preparedness to ensure a smooth transition to T+1 settlement.

4.7 Batch settlement and the Australian banking system

Q13. 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)?

Q14. In the broader banking eco-system, what (if any) changes would be required to facilitate post-CHESS batch settlement processes?

High level summary of batch settlement and the Australian banking system

There were mixed views regarding the batch settlement cut-off time, with varying opinions regarding specific timing, ranging from not later than 1pm to mid/late afternoon. Respondents in favour of a change in settlement timing noted a later cut-off time would support offshore instructions, securities lending transactions, funding readiness and reduce potential failure rates.

Several respondents noted a change in cut-off time was not necessary and expressed caution for knock-on impacts to post batch processing activities. Activities requiring consideration prior to locking in any adjusted batch cut-off time included:

- peak corporate actions activities;
- cash market margin requirements;
- index rebalancing activities;
- ETO exercises timing and collateral workflows;
- knock-on impacts to share registry timings; and
- payment provider SLAs.

Respondents noted that other batch settlement efficiencies should be considered including:

- faster processing times; and
- enhanced capabilities providing greater visibility of projected failed trades and projected funding requirements through shadow batches and pre-settlement advice notifications.

There was limited support for multiple batch settlement processes. Some respondents cited the experience in the New Zealand market resulted in diminished efficiencies. Others highlighted that the introduction of non-batch DvP services would negate the value of additional batches.

Many respondents were supportive of non-batch DvP settlement, some noted that the CHESS-RTGS option would need straight through processing (STP) and credit management capabilities and others were of the view that alternative payment services on the New Payment Platform (NPP) should be considered.

Industry Position

The journey towards implementing a T+1 settlement cycle in Australia necessitates a comprehensive re-evaluation of existing batch settlement processes. Stakeholder feedback emphasised the importance of carefully calibrated timing adjustments, robust process enhancements, and collaborative regulatory frameworks. These efforts are geared towards not only meeting immediate operational challenges but also positioning the Australian financial sector as a leader in global financial markets through enhanced efficiency and resilience.

4.8 Investors - domestic and global

Q15. Please provide perspectives from investors (both retail and institutional) regarding demand to move to T+1?

Q16. 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?

High level summary of Investors - domestic and global

Question 15

The majority of respondents representative of both retail and institutional markets, indicated that investors are not currently demanding a move to T+1. However, many added that there is an expectation that a move to T+1 is inevitable to align with global markets with a focus on participants' ability to comply with T+1. The desire to align with global markets appeared to be more prominent than any view on the reduction in settlement time.

Respondents representative of custodians cited that investors who had recently received questions on T+1 described the discussion as one that was generally supportive of the move but that there was little urgency for the move given the operational impacts. Some are seeking certainty on the roadmap and looking to custodians and third parties to drive the transition. This point highlights the importance of education on the topic across the industry value chain.

Question 16

From a global investor perspective, several critical considerations arose including time-zone challenges, trade matching, FX processes, securities lending, options exercise and corporate actions. These considerations underscore the complexity and operational adjustments that would accompany a shift to T+1 settlement, particularly impacting global investors reliant on local infrastructure and operational support.

Respondents noted the heightened impact on offshore investors to enable same day turn-around for all aspects of trade allocation and matching before their end of day and prior to the Australian market opening. Multiple stakeholders suggested an extension to the CHESS cut-off time to appropriately accommodate international investors. Without operational changes respondents expect to see a significant increase in failed trades from offshore investors as the window to remediate incorrectly instructed settlement is removed. For a further list of the types of operational changes refer to section 4.3 on operational risks.

Responses indicate that both retail and institutional investors see benefits in T+1 settlement for improving market efficiency, price discovery, and cash flow management. However, they are cautious about operational disruptions and increased fees during the transition. Although respondents recognise the benefits of a shorter settlement cycle for investors, they highlighted the necessity for careful planning to mitigate market dislocations and funding impacts, particularly for trades spanning different settlement cycles.

Q17. 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?

There were mixed views about investors requiring foreign exchange to fund trades and their ability to fund AUD bank accounts in time for daily settlement.

Respondents representing the retail market indicated that most offshore retail clients hold AUD locally which means they are effectively pre-funded and would not be impacted by a move to T+1.

Respondents representing the institutional market indicated that same day funding would be available however there would be considerations associated with securities lending activities and costs. 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.

Other challenges associated with transitioning to a T+1 settlement cycle include time constraints for completing foreign exchange transactions and funding AUD accounts, potential delays in currency conversion, and the need for effective liquidity management. Solutions proposed to address these challenges include implementing real-time foreign exchange settlement systems, maintaining pre-funded accounts in multiple currencies, enhancing banking infrastructure, collaborating with intermediaries,

Industry Position

While there is recognition of potential benefits such as improved liquidity and reduced risk through T+1 settlement, concerns over operational readiness, cost implications, and the need for robust infrastructure are front of mind. Education and coordinated efforts among market participants are essential for a successful transition to T+1 settlement in Australia, balancing the interests and needs of various investor segments.

4.9 Issuers/listed companies and corporate actions

Q18. 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?

High level summary of Issuers/listed companies and corporate actions

The responses noted a need to ensure alignment of ex-dividend and record dates for dual-listed issuers in the scenario that two respective exchanges are operating on different settlement cycles to prevent investors form double dipping. Issuers should provide continuous feedback on proposed changes to ASX Listing Rules, potentially requiring amendments to governance documents like securities trading policies and DRP rules.

Standardisation of CHESS corporate action messages sent by all registries will be needed to ensure the correct reason codes are used for a particular event. This would reduce exception management and enable further automation.

Consideration and analysis of cum entitlement balances and the use of special cum markets is required.

Respondents noted that the impact on current capital raising structures and timetables should be evaluated, considering challenges such as the impracticality of T+1 placements with certain settlement instruments, complexities for dual-listed securities, and increased burden on custodian obligations for register reconciliations under shorter settlement cycles.

Dual listed companies would need to consider international movements on their registries, noting that share 'shunting' which could cause issues between T+1 and T+2 markets. Given the number of Australian and New Zealand dual-listed securities, many respondents have suggested that it makes sense for Australia and New Zealand to transition to T+1 at the same time.

Many respondents emphasised the need to enhance registry response times for SRN enquiries. They also advocated for the acceptance of electronic transmissions for manual 12a forms ('request for SRN' - a paper form provided to the issuer's registry), with clear rules and rejection identifiers in cases of electronic message rejection, such as incorrect name, address, or multiple SRNs. There was strong support for message standardisation to reduce exception management and enable automated processing.

There were respondents who do not consider settlement cycle changes as posing challenges for issuers. Settlement dates for equity capital market trades typically fall outside the regular settlement cycle, with rights issues settling between T+5 to T+8 (depending on the structure), and settlement dates for IPOs and placements, set at the discretion of the organisation, generally occurring on T+3. As such a T+1 settlement may not impede on this process at all.

> **Industry Position**
>
> T+1 implementation considerations associated with Issuers, listed companies and corporate actions will be complex and will require a detailed review of rules and the associated operational processes supporting them.

One respondent suggested that capital raisings, certain corporate actions and IPOs should not be included in the scope of T+1 settlement. They stated that a T+1 timeline may not be practical due to existing book-building processes, overnight security interest setups, and the preparation required for settlement.

4.10 Additional considerations

Q19. 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?

Q20. Is there any other feedback or information you would like to share?

High level summary of additional considerations

Question 19

The time and cost estimates of a transition to T+1 varied, with most respondents indicating the process would be a significant to large undertaking. Timelines ranged between 6 months to 3 years, with most respondents indicating their preference was the 24 – 36 month range following cross industry analysis or finalisation of the solution.

Most respondents indicated that adequate lead time also needs to be factored in to ensure that they have sufficient time to obtain budget and other project/ change management protocol approvals prior to any implementation effort.

Respondents did caveat that any final timing estimates (and costs) would depend on the final solution.

Question 20

Respondents were keen to understand how CHESS replacement and T+1 will overlap and expect ASX to outline this in a clear roadmap. They indicated that both were large scale programs that present pressures on effort, time, resourcing and costs.

Most respondents also indicated that they do not support running CHESS replacement and T+1 concurrently and have indicated that CHESS replacement should be prioritised ahead of T+1. Respondents also noted that any defined and agreed solution needs to be sustainable to avoid significant rework.

Respondents have noted that this approach could result in Australia trailing other markets with regards to transitioning towards T+1, but they also acknowledged the complexities associated with CHESS replacement and the need to bring certainty to the market.

Separate to CHESS replacement, several respondents have indicated that any move to T+1 needs to consider timing of other industry initiatives in addition to being aligned with Australian debt market and the New Zealand market.

One respondent welcomed the views in the whitepaper with regards to a 40% reduction in cash market margining. However, they outlined that this was modest relative to the cost of clearing and they would expect that a reduction in capital held at the clearing house should result in lower clearing fees.

Industry Position

Feedback received indicated that CHESS replacement should be prioritised ahead of T+1 and that respondents do not support running both programs concurrently. T+1 is anticipated to be a large scale program for the industry so it is vital that the solution method needs to be sustainable and avoid significant rework. Consensus on the need to align with New Zealand and Australian Debt markets is clear.

5/ Next steps

ASX has reviewed industry risks and benefits, analysed feedback received from the whitepaper, closely monitored global transitions to T+1, with particular attention to developments and customer implications in the USA and Canada, and assessed potential impacts on the CHESS Replacement project.

In addition to the publication of this paper, ASX has released a consultation paper on the scope and implementation of CHESS replacement Release 2 (settlement and subregister) which outlines ASX's proposal for the implementation of T+1 in the context of the CHESS replacement project, having regard to the feedback received during the whitepaper consultation process, the international context and impacts to CHESS replacement.

We welcome your views on ASX's proposal via responses to the consultation paper and in ongoing industry engagement.

Appendix A - Non-confidential responses

Public non-confidential submissions were received from the following respondents:.

- ABN AMRO Clearing Sydney Pty Ltd
- ACSA
- AFMA
- AUSIEX
- Australian Payments Network
- CBOE
- DTCC
- Financial Services Council
- Governance Institute of Australia Ltd
- SecuritEase International Limited
- Stockbrokers and Investment Advisers Association

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