



T+2 Settlement

Frequently Asked Questions

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Contents

Introduction	3
Frequently Asked Questions (FAQs) and Answers	4
1 General	4
2 Change to the Batch Settlement Cut-Off Time	4
3 Scope – Securities impacted.....	4
4 Corporate Actions	5
5 Testing	5
6 Go live Date	6
7 Industry Readiness and market communication.....	6
8 Other markets	7
9 Disciplinary regime for failed settlements.....	8
10 Risk Management	9
11 ASX Rule Book changes.....	10
ASX T+2 Settlement contact details	11

Introduction

The settlement cycle for cash equities in Australia will be reduced to trade date plus two business days (T+2) from trade date plus three business days (T+3) in March 2016. The introduction of T+2 settlement cycle will be accompanied by a change to the batch settlement cut-off time from 10.30am to 11.30am. ASX will provide information and implementation material for market participants and others on asx.com.au – www.asx.com.au/t2settlement.

ASX has also established a Market Implementation Group (MIG) to meet at least quarterly via webinar during 2015 and up until implementation of T+2 in March 2016. More information on the MIG and its purpose is available from www.asx.com.au/t2settlement.

ASX has prepared the following Frequently Asked Questions and Answers to assist participants and other stakeholders' with their readiness. Questions include those raised by attendees during the MIGs and in other forums.

Frequently Asked Questions (FAQs) and Answers

1 General

Question: What are the expected benefits from shortening the settlement cycle by one business day?

Answer: T+2 settlement is expected to deliver broad based benefits through:

- Reducing counterparty risk for individual investors, participants and the central counterparty, resulting in reduced systemic risk for the market as a whole;
- Reducing the regulatory capital required to be held by market participants to mitigate risk;
- Standardising regional and global settlement practices;
- Driving greater post-trade operational and process efficiency and associated cost savings.

2 Change to the Batch Settlement Cut-Off Time

Question: Will mFund batch settlement cut off be extended?

Answer: Yes. The batch settlement cut-off for all securities and services will move to 11.30 am. The Fund Request cut-off will change from 10.15 am to 11.15 am.

Question: Why is the change in batch cut-off time tied to T+2? Can it be introduced ahead of the implementation of T+2?

Answer: A later batch settlement cut-off is being introduced to support the implementation of a shorter settlement cycle and help maintain market efficiency. Two participants have expressed interest in the change to an 11:30 am batch settlement cut-off being introduced ahead of T+2 implementation. ASX has consulted a number of other participants and payment providers on this suggestion and has not found widespread support for decoupling the introduction of T+2 and the change to the batch settlement cut-off time. The primary reason for the lack of support by industry is the anticipated duplication of project resources required for system changes and testing (including conflicting projects, budget allocation).

This matter was discussed at the 4 March 2015 meeting of the Business Committee, which was established under the Code of Practice for Clearing and Settlement of Cash Equities in Australia. In this meeting ASX confirmed that based on the feedback received, ASX would proceed with the implementation of the change to the batch settlement cut-off time and T+2 settlement cycle together in March 2016.

Question: The changes impact the deadline or timing of some transactions on the settlement day, are there any changes to Participant connectivity to CHES, e.g. session log in, end times? Is this the same for the TAS?

Answer: All proposed changes are described in the [T+2 Settlement Business and Technical Overview document](#). The availability times for CHES and the TAS remain unchanged.

3 Scope – Securities impacted

Question: Will T+2 Settlements include non-equity ASX listed products, for example, fixed income products?

Answer: Yes, fixed income products are included. All CHESSE eligible products will be included in the implementation of T+2 Settlement. The [T+2 Settlement Business and Technical Overview document](#) published by ASX provides further information.

Question: Are tailor made combinations included in T+2?

Answer: Yes.

4 Corporate Actions

Question: Will the ex period for corporate actions be reduced to 2 days in line with the change to the settlement cycle? Which corporate actions are impacted?

Answer: Yes, the ex period will be reduced to 2 days to match the settlement timeframe. The list of corporate actions impacted by this change has been included in the [T+2 Settlement Business and Technical Overview document](#) published by ASX in the first quarter of 2015.

Question: Will the deadline for DRP election still be RD + 1?

Answer: Yes. There is no change to the DRP election deadline requirements introduced into the Listing Rules on 14 April 2014.

Question: Is there a possibility of retaining the current three day ex period so as to reduce the number of failed trade protections for participants?

Answer: The ASX moved to a regime where the ex period matches the settlement period in April 2014, following consultation on the proposal. The previously included buffer of 2 business days (where ex periods were 5 business days) was considered no longer necessary given the very low level of failures. ASX proposes to use the same convention in the introduction of T+2 settlement, where the ex period will be 2 business days including the ex date and the record date.

Question: Are issuer companies using straight through processing of corporate actions announcements yet? If so, what transition do they have to draft their announcements in T+3 that go live in T+2?

Answer: Yes, issuers have been using the online forms for the announcement of Dividend, Interest Payment, Reconstruction and Return of Capital corporate action announcements on a voluntary basis since September 2014. The online forms will be amended in 2015, where the ex-period (and resultant ex date) calculated by ASX is appropriately adjusted depending on the record date announced by the issuer and whether it occurs before or after the target date for transition to T+2 Settlement.

5 Testing

Question: Can you advise when the test environment will be ready?

Answer: ASX is proposing that the test environment will be available for all ASX changes in November 2015, following the November 2015 mandatory CHESSE release.

Question: What is the extent of testing that will be made available to participants and other stakeholders?

Answer: ASX will provide further information regarding the test facilities, duration and scope in second quarter 2015.

Question: Can I do any testing now?

Answer: Yes. Users are able to use the current CHESSTesting environments to replicate a T+2 settlement regime by submitting a trade file with T+2 dates. Users may also test the reduced ex period by submitting CA files with a 2 day ex period. Access to information on how to build a trade file and CA file in the CHESSTesting guidelines found in the CHESSTesting guidelines.

6 Go live Date

Question: When is the go-live date for T+2?

Answer: ASX is currently working towards a March 2016 go-live with a target transition date of Monday 7 March 2016. The [T+2 Settlement Business & Technical Overview document](#) published by ASX includes details of a proposed transition period. The exact transition date will be confirmed in early 2016 based on ASX and market participant readiness.

Question: What about the March 2016 Labour Day holiday in Melbourne?

Answer: ASX is considering all known scheduled public holidays, non-settlement days in determining a go-live date. The current target transition date is Monday 7 March 2016. The Labour Day Holiday in Victoria is on the following Monday, 14 March 2016. For details on the transition arrangements refer to the [T+2 Settlement Business & Technical Overview document](#).

7 Industry Readiness and market communication

Question: Will the ASX run a public awareness campaign either through advertising or media editorials?

Answer: ASX will notify participants and other market stakeholders via the usual channels such as Market Notices, information on asx.com.au and meetings/workshops. ASX issued a [media release](#) on 25 February 2014 on T+2 Settlement and will publish further media releases around key milestones. Together with media releases, ASX will contact relevant journals and publications to promote inclusion of T+2 Settlement information in order to promote awareness.

Question: There have been some instances following the introduction of T+2 in Europe where clients maintained a T+3 settlement regime while the participant had to manage the T+2 risk, what will participants be required do to manage that risk with the introduction of T+2 in Australia?

Answer: Client delivery obligations are a business matter to be agreed between a participant and its clients. The obligation to deliver for settlement remains with participants. In respect of client risk, participants could consider amending their existing client agreement for consistency with a T+2 settlement cycle.

Question: Is participant attestation required and, if so, when will it be required?

Answer: Yes. ASX will be seeking participant attestation by no later than February 2016 to confirm readiness for the transition to T+2 settlement. Further details on testing and the attestation process and timing will be provided in the third quarter of 2015.

Question: How will ASX assist vendors to prepare for the implementation of T+2?

Answer: ASX is planning to hold workshops with vendors and their participants at a number of key milestone periods during the project. For those participants with in-house solutions for CHESSE connectivity, bilateral workshops will be offered. Workshops have been held during March and April 2015 to discuss the changes identified in the [T+2 Settlement Business and Technical Overview document](#). ASX will also provide a T+2 Industry Readiness Guide to further assist stakeholders with considerations for their preparedness for T+2.

Question: Does the introduction of T+2 for cash equities impact ASX provided products for CHESSE interface, that is, CHESSE PC, CHESSE Access?

Answer: There is no expected impact on these products. EIS upgrade details will be provided to CHESSE PC clients. This EIS upgrade is to install revised values for CHESSE Event Type which could appear on the MT542 "CHESSE Event Notification" as a result of Settlement Cut-off being extended.

Question: Will the educational material content have read and write versions so we can tailor it to our client audience. Not all of us are stockbrokers?

Answer: ASX will provide a number of pro forma versions of educational material with varying target audiences. Any branded material provided by ASX will not be editable by stakeholders.

8 Other markets

Question: What are the lessons learnt from the implementation of T+2 in other markets?

Answer: ASX included an agenda item in the March 2015 Market Implementation group meeting that discussed what went well and the shortcomings regarding the implementation of T+2 in other markets. Refer to the presentation, and recording for the MIG held on 19 March 2015 for Omgeo's comments on the implementation of T+2 in Europe, available on the [T+2 settlement web page](#).

Question: Is ASX working with NZX to ensure the T+2 implementation date is aligned in both markets?

Answer: NZX has released a [consultation paper](#) regarding its intended move to T+2. In the paper NZX states: "NZX proposes to transition to a T+2 settlement cycle at the same time as ASX in order to maintain alignment of settlement cycles in the New Zealand and Australian capital markets." NZX released further information in April 2015.

NZX is participating in ASX's T+2 Market Implementation Group and ASX will ensure that it continues to engage with NZX throughout the project to facilitate alignment in the implementation of T+2 between the two markets.

Question: Will securities traded on other markets in Australia, for example, Chi-X and other listing exchanges, move to a T+2 settlement cycle together with the ASX market?

Answer: Securities that utilise ASX settlement services and are traded on equity markets other than ASX in Australia will move to a T+2 settlement cycle at the same time that a T+2 settlement cycle is introduced for equity securities traded on the ASX market.

Question: Are BSX NSX moving to T+2 as well?

Answer: National Stock Exchange of Australia (NSX) is a listing exchange in Australia that utilises ASX's settlement services. Trades on that market will therefore move to a T+2 settlement cycle. The other listing exchanges in Australia that utilise ASX settlement services are SIM Venture Securities Exchange Limited (SIM VSE) and Asia Pacific Exchange Limited (APX).

Note that the Bendigo Stock Exchange (BSX) was renamed the SIM Venture Securities Exchange in 2010. The certificated securities that were listed on the BSX are now part of NSX and do not utilise ASX Settlement services and therefore will remain on a T+5 settlement cycle. All other NSX and SIM VSE securities will move to a T+2 settlement cycle.

Question: Are there any other changes to the services of the other markets in Australia other than settlement? How will I know what the changes are?

Answer: ASX expects that the other markets will advise their own customers of the impact to their own services with regard to a transition to T+2 Settlement. You should contact those markets directly to be placed onto their mailing lists.

Question: Will bond securities traded on ASX move to a T+2 settlement cycle?

Answer: Yes, exchange traded AGBs (depository interests) will be included in the transition to T+2 Settlement. Exchange traded AGBs (Australian Government Bonds) currently settle on a T+3 settlement basis on ASX, matching the conventional settlement period of bonds on the wholesale bond market. The wholesale bond market is giving active consideration to moving to a convention providing for a T+2 settlement cycle and has consulted on this issue. Further information on Exchange traded AGBs will be provided in future MIGs and in the [T+2 Settlement Business and Technical Overview document](#).

9 Disciplinary regime for failed settlements

Question: Is ASX proposing to waive fail fees associated with a shorter settlement cycle for an interim period following the introduction of T+2 settlement?

Answer: ASX has reviewed its settlement disciplinary regime in the context of implementation of T+2 and considers that the key elements of this regime – financial penalties for failed settlement, an automatic close-out requirement and the potential for serious cases of settlement delay to be referred to ASX's Disciplinary Tribunal - continue to provide appropriate incentives to promote timely settlement and support market efficiency.

As such, ASX is not proposing to waive settlement failure fees associated with the introduction of a shorter settlement cycle. ASX is proposing to change the ASX Settlement Operating Rules so that the settlement disciplinary milestones are also reduced by 1 business day (that is, financial penalties will be levied for settlement fails on T+2 and the automatic close-out requirement will be applied to settlement shortfalls that remain after batch on T+4). Notwithstanding this, ASX has proposed that any additional settlement failure

fees that are received during the first 12 months of implementation of T+2 will be set aside in a separate pool of funds to undertake customer and investor education. Additional detail to be advised in Q4 2015.

10 Risk Management

Question: In general terms, what is the expected reduction in risk from moving to a T+2 settlement cycle?

Answer: At any point in time, the introduction of a T+2 settlement cycle will reduce the duration of unsettled clearing house novated transactions and also clearing participants' related non-novated settlements including bilateral off-market trades, security transfers and securities lending and borrowing transactions.

The exposure from the unsettled transactions for individual participants is likely to be lower and this will reduce participants' exposure to default by their clients (counterparty credit risk). The reduction in aggregate counterparty risk exposure for the central counterparty expected from the introduction of T+2 will also reduce systemic risk for all market users.

Question: How will a shortened settlement cycle affect my Cash Market Margin (CMM) obligation?

Answer: Individual clearing participant margin changes due to a settlement period reduction vary widely from relatively small increases to sizeable reductions for larger clearing participants. ASX estimates that had the T+2 settlement cycle been in place since the introduction of Cash Market Margining (June 2013), over 90 per cent of participants would have seen a reduction of between 20 to 30 percent in their average daily cash market margin requirement.

Question: Is it possible to obtain an indication of what our CMM obligation is under a T+2 settlement cycle vs a T+3 settlement cycle?

Answer: Yes, ASX Clear can provide this information to clearing participants upon request. To obtain this information, please contact us via T2Settlement@asx.com.au.

Question: Are there any expected Liquid Capital requirement savings?

Answer: Although it is difficult to estimate the impact on liquid capital requirements for participants subject to risk based capital requirements, ASX estimates that participants could expect a reduction in their liquid capital requirements, in so far as they relate to cash equities, of between 10 and 20 percent.

This is dependent on the amount of netting present in any participant portfolio of transactions and the speed at which payments from clients are received. Clearers of institutional business are likely to see the largest reductions. Retail brokers are expected to realise significantly smaller reductions depending on the level of client sponsorship and the use of real-time cash management trust accounts.

Question: Is there any change to the way that collateral is released when it has been withdrawn and subsequently held¹?

Answer: Where ASX Clear is returning funds, held collateral will be released the following business day morning on approval of the margin settlement cash flows by ASX Operations. Where the Participant is paying funds, held collateral will be released the following business day on completion of the Participant's margin settlement in Austraclear.

Question: Margin payments to clearing participants will occur approx. half an hour later. Is there any impact to the time by which margin payments to the ASX need to be made?

Answer: ASX confirms that margin payments by ASX to clearers will occur by 12.30pm (rather than 12.00pm). There is no change to the requirements for Participants to settle margins at 10.30am.

11 ASX Rule Book changes

Question: When will the rule changes be issued?

Answer: ASX will publish a consultation paper with attached marked up rule book changes in the second quarter of 2015. A Market Notice will advise the availability of the consultation paper, and the changes will also be discussed at the MIG to be held in the second quarter of 2015. The actual revised rules will be published close to or on the transition date in March 2016.

¹ "held collateral" means the 1 business day deferred release of any equity collateral withdrawal against a DCS account that has a non-zero margin obligation.

ASX T+2 Settlement contact details

If you have any questions about the introduction of a T+2 settlement cycle that haven't been answered in this or other documents published by ASX, please contact the project team at email: T2Settlement@asx.com.au.

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