



Stockbrokers and Investment
Advisers Association

Serving the interests of investors

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Dear Clive

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

The Stockbrokers and Investment Advisers Association (SIAA) is the professional body for the stockbroking and investment advice industry. Our members are Market Participants and Advisory firms that provide securities and investment advice, execution services and equity capital-raising for Australian investors, both retail and wholesale, and for businesses. Practitioner Members are suitably qualified professionals who are employed in the securities and derivatives industry.

SIAA members represent the full range of advice providers from full-service and online brokers to execution-only participants and they provide wealth advice and portfolio management services.

The history of the stockbroking profession in Australia can be found [here](#).

SIAA members include clearing and settlement participants as well as external vendors and CHES users developing in-house systems. SIAA is a member of the ASX Business Committee and attends the meetings of the ASX Technical Committee as an observer. SIAA is also a member of various CHES Replacement working groups and the T+1 working group. We thank ASX for its open engagement with industry stakeholders on the project so far through these forums.

We welcome the opportunity to provide feedback on the Whitepaper on considerations for accelerating cash equities settlement in Australia for T+1 (Whitepaper). We have provided the feedback of multiple members in aggregate.

Executive summary

- Most of SIAA's members are domestic retail brokers and their responses reflect that. Our members do not report any demand from retail investors for a move to T+1.
- A move to T+1 will require the industry to undertake significant process changes and testing of systems.
- A significant communications piece will be required to educate both clients and advisers of the impact of T+1 settlement.
- All parts of the market would need to move to T+1 at the same time. The market will need plenty of lead time to implement a T+1 transition.
- Our members' capacity to move to T+1 is impacted by other upgrades and system changes currently proposed by both ASX (Services Release 15) and Cboe (proposed listings framework).
- CHES replacement is more important to our members than T+1. Members are concerned that trying to fit T+1 implementation into the CHES replacement timeline may delay that important project. On the other hand, if T+1 is delayed until CHES replacement, Australia risks falling behind the rest of the world. The delayed implementation of CHES replacement makes it very challenging for the market to provide realistic feedback on when would be the best time to transition to T+1.
- Resource constraints apply both to the impact of other upgrade and system changes and the work required to implement CHES replacement. Furthermore, our members have businesses to run for which resourcing is also required.

Question 1 – Would a decision to adopt, or not adopt, T+1 settlement affect the Australian markets international competitiveness as a destination for foreign investment?

Most of our members are domestic retail brokers. The feedback from our members is that overall, they do not expect that a decision to adopt or not adopt T+1 settlement would affect the Australian markets international competitiveness as a destination for foreign investment. This is particularly the case while ever the UK and Europe remain on T+2.

We understand that some large institutional brokers already facilitate T+1 for their clients on request. Commercial decisions will be made by such market stakeholders irrespective of any decision to not adopt T+1 settlement in the near future.

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

Again, our members who are predominantly domestic retail brokers do not anticipate any restrictions on trading volumes resulting from Australia staying on T+2.

Question 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)?

We note that Australia has very low fail rates (averaging around 0.3% (volume based) and 0.1% (value based) from 2019 to 2023. Any increase in fail rates would be a material change to the Australian market.

Our members’ feedback is that the following issues (if unresolved) could result in an increase to fail rates in their operations in a move to T+1:

- Assignments on exercise of Exchange Traded Options. Assignments would need to be automated to prevent this.
- Settlements involving margin lending.
- The use of direct debits and clients who do not have a cash account. Our members point out that direct debit will not work in a T+1 environment and that brokers may have to require their clients to have a cash account.
- Overseas clients settling DVP who fail to provide instructions in time.
- Securities lending (see our response to question 12).

Our members expect that brokers will require all stock to be CHES sponsored before a sell order is sent to the market.

Question 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)?

Our members’ feedback is that most systems are configurable to a T+1 settlement and they don’t anticipate the need for a change to their technology as such.

However, a move to T+1 settlement will require the industry to undertake significant process changes and testing of systems. Firms will need to test different actions at different times of the day.

The process flow and timing for the exercise and assignment of Exchange Traded Options will need to change. Currently firms are notified of the resultant trade on the morning after the exercise process, effectively on T+1. In a T+1 environment this would mean that assignments would be booked and settled on the same day. This timing will not work for DVP match up in a T+1 environment.

In light of the other upgrades and system changes currently proposed by both ASX (Services Release 15), Cboe (proposed listings framework) and CHES replacement, there would be significant investment in resource capability required to simultaneously undertake implementation and testing of T+1. Our members are of the view that such simultaneous investment is not feasible — resource capacity will already be stretched.

Our members also consider that a significant communications piece will be required to educate both clients and advisers of the impact of T+1 settlement. By way of example, because of the issues with

direct debit highlighted in our answer to question 3, clients will need to pre-fund their purchases. They will need to be transitioned from BPay and direct debit to a cash account to ensure that brokers have visibility over the client's cash holdings. Also, brokers will require stock to be CHESSE sponsored.

Firms will need to understand the impact on their peripheral systems and ensure that their banks are working in tandem with them in the transition.

While in the short term there may be some teething issues as the market grapples to adapt to the new timelines, the view has been expressed that in the medium/long term the move to T+1 will be beneficial for the overall market, as it will drive more automation and efficiency.

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

Our members consider that there will be a need for technology upgrades of back office and middle office post trade systems.

An example of this is the requirement for a Straight Through Processing Institutional trade confirmation and settlement instruction system/capability via the investment manager, fund manager and custodian for settlement matching, without which there is an elevated risk of market fails.

We note that the DTCC has delivered a system in the US that assists the trade confirmation settlement process for institutions. Our members are concerned of the potential cost of such a system if it is delivered on a monopoly basis and brokers are compelled to use it. This risk can be mitigated by providing meaningful lead time from announcement to implementation, which should hopefully result in the development of a solution by multiple providers with a more competitive end price.

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

Our member feedback is that all parts of the market would need to move to T+1 at the same time. This would include technology providers such as IRESS. Technology providers will have their own road map in place to accommodate other upgrades and system changes, which may not accommodate T+1 implementation in the near future as well. The market would need to adopt market-wide risk management tools.

Our members have suggested the establishment of a centralised industry securities lending facility to cover market fails.

The processes around corporate actions would need to be consistent and agreed standard timetables would need to be in place for all events. Agreement would need to be reached on how to determine an ex-date for dual listed securities.

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

Our members are unanimous in their view that their capacity to move to T+1 is impacted significantly by the fact that while a move to T+1 on its own is not complex, it becomes more so when externally-driven changes such as CHESS replacement, ASX Services Release 15 and Cboe proposed listings framework are taken into account. Our members are working in a complex regulatory environment that is subject to constant change, frequently requiring system changes. Their IT resources are finite and already devoted to these existing projects as well as internal in-flight and planned projects. Resources and attention that are directed to these projects also impact on their ability to deliver innovation to clients.

Significant resource constraints therefore apply to the capacity of our members to move to T+1.

Question 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?

ASX will need to improve post-trade settlement systems.

Our members agree that the settlement batch will need to be pushed back to later in the day of T+1 to ensure there is enough time to undertake the necessary pre-settlement actions and to allow sufficient time for DVP matching prior to settlement.

However, the batch settlement time is dependent on factors such as the RITS cut-off time of 4.30pm. Our members consider that any new batch settlement time must allow enough time between the end of the batch and the RITS cut-off time. A new batch settlement time must also allow for firms to complete their post-batch activities within the working day. As there are a lot of scheduled processes to be undertaken that would need to be changed our members anticipate that their working day may have to be extended. As a result, payments to clients may go out later in the day and trust movements would need to move later in the day as well.

As noted previously, the notification time for ETO assignments will need to change from the current time to the previous evening.

Sending confirmations to clients via mail will no longer make sense in a T+1 environment as the client will not receive it before the trade settles. The operating rules do not currently mandate sending confirmations electronically.

To get ready for T+1 in the US some firms have already had to stagger the start times of their operational staff in Australia. Those firms with overseas operations have been able to arrange for international team members to pick up work to accommodate the move to US T+1.

If Australia were to transition to T+1, firms would be required to do more work between market close at 4.00pm on T+0 to get ready for settlement on T+1 than they currently do. Firms with overseas operations could get their overseas teams to work overnight. Firms with only domestic operations may have to arrange for staff to work later in the day.

Questions 9 to 11 – Potential impacts on ETF issuers

These questions are not relevant to our members.

Question 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?

Our members consider that transition to T+1 settlement will be a pivotal point for short sales and securities lending.

Our members agree that the securities lending market in Australia is characterised by a decentralised network of bilateral relationships. In essence there are currently not a lot of stock lending options available to participants. A move to T+1 settlement is likely to result in borrowers finding it difficult to borrow stock and an increase in the fees charged by lenders. Borrowers will have less time to return securities to a lender when the loan is recalled which could lead to settlement failures if the borrower is unable to return the securities in time. The Whitepaper raises the prospect of an introduction of a centralised market infrastructure to automate securities lending processes. We note that ASX previously offered a stock borrowing service for participants to use to deal with market fails. We recommend that ASX revisit this idea to ensure there is a mechanism to deal with market fails.

An increase in settlement fail rates would become a reputational issue for the Australian market and potentially impact international competitiveness, particularly since 83% of total trading activity is by institutional investors.

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

We refer to our answer to question 8 on the issue of potentially moving the batch settlement to later in the day and the matters that should be taken into account when determining an appropriate time.

Potentially, bookings would need to be extended past 7pm on T+0 to ensure all trades are booked and ready to settle the next day. Priming the settlement HIN would have to be undertaken at an earlier time.

We note that based on an 11.30am CHESSE settlement batch cut-off time, the CHESSE settlement batch is typically complete by approximately 12.30pm. One key change that would enable batch settlement to take place later in the day would be for CHESSE to process the batch more efficiently.

If the transition to T+1 is implemented before CHESSE Replacement, ASX should consider whether it could make incremental changes to current CHESSE to speed up the batch and make it more efficient. If the transition to T+1 is implemented after CHESSE Replacement the CHESSE solution design must ensure the batch settlement time is reduced as an extended batch processing time will not be possible in a T+1 environment.

Our members agree on the importance of retaining one settlement batch to maintain netting efficiency.

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

If the settlement batch is moved to a later time, banks will need the ability to make payments later in the day. Real-time banking would be of benefit before the market transitions to T+1.

Banks may also have to increase liquidity to finance DVP fails.

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

Our members do not report any demand from retail investors for a move to T+1, other than the very occasional request for early pay-out on sells.

While there is a benefit for sellers who receive sale proceeds more quickly on T+1 there is no benefit for buyers who will need to prefund their purchases in a T+1 environment.

There are no benefits to T+1 settlement for those investors who trade using contra settlement.

While we note that 83% of total trading activity is by institutional investors, suggesting their views should determine whether to move to T+1 or not, there is a very large retail investor base in Australia. Their investment needs are tied to a range of outcomes, including retirement funding and, for younger generations, generating wealth for house purchases. Given the absence of benefits for retail buyers and those who trade using contra settlement, consideration must be given to a communications strategy that includes rationales for any move to T+1 in order to persuade them of its necessity. We suggest that this would be a longer-term strategy that is required rather than one that could be accomplished in the short term.

Question 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?

Our members report that most offshore retail clients hold AUD here. This means they are effectively pre-funded and would not be impacted by a move to T+1. There may be some impact on first-time trades with the routing of instructions to the local custodian and local banks.

Question 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?

We repeat our answer to question 16.

Question 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?

Registries will need to have faster response times to the provision of paper form 12A (request for SRN) provided to the issuers' registry. These inquiries will need to be via straight through processing and electronic. Currently some registries require the form to be sent via fax.

Dual listed companies will need to consider international movements on their registries as share 'shunting' may cause issues between T+1 and T+2 markets. Our members consider that as there is a lot of 'shunting' between the Australian and New Zealand markets, it makes sense for Australia and New Zealand to transition to T+1 at the same time.

Question 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?

Our members have project roadmaps and budget processes that have lead times of at least 12 months. The budget spend is usually locked in as at June/July for the following year.

This means that the industry will need plenty of lead time in order to implement a T+1 transition.

From the time the decision is made the industry will need a notice period of one and a half to two years to allow for testing and automation. A longer-term communication strategy also needs to be factored in.

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

The major issue with T+1 is the impact that CHES replacement has had and will have on it.

If CHES replacement had been implemented as per its original timeframe, the market would be in a good position to plan for the implementation of T+1. However, the market is having to deal with a delayed implementation of CHES replacement, with as yet no finalised timeline for this project. This makes it very challenging for the market to provide realistic feedback on lead time and when the best time would be to transition.

CHES replacement is more important to our members than T+1. Most of our members would prefer T+1 implementation after CHES replacement. They are concerned that trying to fit T+1 into the CHES replacement timeline will cause delays to that important project. They are also concerned about how they will resource both CHES replacement and T+1 if they are done at the same time, particularly taking into account the other upgrades and system changes that are currently proposed by ASX (Services Release 15) and Cboe (proposed listings framework).

Other members are concerned that waiting until CHES replacement is completed (the indicative CHES replacement implementation date range is currently late 2028 to early 2029) will mean the transition to T+1 does not take place until sometime in 2029 and that will result in the Australian market falling behind the rest of the world.

In any event, our members will be closely watching whether the move to T+1 in the US and Canada has any impact on the plans of other markets. At present those plans do not envisage a move to T+1 before 2027.

Responses to Table 2

We received responses from five members to the mandatory questions in Table 2 of the Whitepaper. These responses have been aggregated and are provided on a no-names basis.

Capital flows

There was no agreement on this item. Of the five members who responded to us on this question, three were in favour (one rated it as high weight, two rated it as medium weight), one member was against (medium weight) and one member stated that this item was not applicable to them.

One of the members in favour of this item noted they approached it from the view of T+1's effect on their actual regulatory capital requirement and not on investors' flow of capital to the Australian market.

Systemic risk

Three members were in favour on this item. Two rated this item as medium and one as low weight. Two members were against this item (medium weight). One of these members clarified that its response was based on the infrastructure and capability in the market today, but noted that most of their concerns would fall away with the implementation of technology development, education, increased CHES sponsorship and institutional Electronic Trade Confirmation Straight Through Processing through to custodians, amongst other matters.

Settlement risk

Three members were in favour of this item (two medium weight and one high weight) and two were against (medium and high weight). Again, the concerns of one of the members who was against this item would fall away with the implementation of technology development, education, increased CHES sponsorship and institutional Electronic Trade Confirmation Straight Through Processing through to custodians, amongst other matters.

Cash market margin

All five members who responded were in favour of this item. Three members rated this item as high and two as medium weight.

ASX Clear default fund

Three members were in favour of this item. Two members rated this as low and one as medium weight.

Two members stated that this item was not applicable to them.

Operational risks and processes

Four members were against this item (one rated it as low and the other three as medium weight). The concerns of one of these members would fall away with the implementation of technology development, education, increased CHES sponsorship and institutional Electronic Trade Confirmation Straight Through Processing through to custodians, amongst other matters.

One member was in favour of this item and rated it as medium weight.

Trading activity and middle office processes

Two members were against this item (one rated it low and the other as medium weight). One member was in favour (and rated it as low weight). Two members stated that the item was not applicable to them.

ETF management

All five members stated that ETF management was not applicable to them.

Securities lending

Four members stated that securities lending was not applicable to them.

One member was against this item (high weight).

Australian banking system

Two members who responded were in favour of this item and both rated it as medium.

One member was against this item (medium weight).

Two members stated that it was not applicable to them.

Fixed income settlement cycles

All five members stated that this item was not applicable to them.

Derivatives

Three members stated that they were against this item (two rated it as high and the other as medium weight). One member was for this item (medium weight).

One member stated that this item was not applicable to them.

Intermediaries

There was no agreement on this item.

Two members were for the item (one medium weight and one high weight), two were against it (low weight and high weight) and one member stated that it was not applicable to them.

The member that was against it and applied a high weighting stated that their concerns would fall away with the implementation of technology development, education, increased CHESS sponsorship and institutional Electronic Trade Confirmation Straight Through Processing through to custodians, amongst other matters.

Investors – domestic and global

Three members were in favour of this item (two medium weight and one low weight) and one was against (medium weight).

One member stated that this item was not applicable to them.

Issuers/listed companies, corporate actions

Four members were in favour of this item. Two rated it as medium and two rated it as low weight.

One member was against the item (medium weight).

Implications of not moving to T+1

Three members were in favour of this item (two medium weight and one high weight) and one was against (low weight).

One member stated that this item was not applicable to them.

Other

All five members stated that this item was not applicable to them.

Overall organisation conclusion

Four members were for T+1 (three medium weight and one low weight). One member was against (High weight.)

Conclusion

If you require additional information or wish to discuss this submission in greater detail please do not hesitate to contact SIAA's policy manager, Michelle Huckel, using the contact details in the covering email.

Yours faithfully

A handwritten signature in black ink, appearing to read 'J Fox', with a stylized flourish above the 'x'.

Judith Fox
Chief Executive Officer