

# Financial Stability Standards Implementation

## Cash Equity Market Account Segregation and Portability, and Rescheduled Settlements Consultation Paper 2013

### Burrell & Co Holdings Pty Ltd Submission

#### ***Q1. Which method do you support and why?***

We support the maintenance of a single House account as exists under current practice – Solution 1.

- We have not been provided with a proper justification of the need for any change. That is, the RBA have not provided estimates of by how much the proposed change is going to improve the stability of the existing settlement system and balanced that against the cost of implementation and the risk of error by imposing a more complex system under one of the other two ASX alternatives.
- It does not appear that solutions 1, 2 or 3 will go very far towards meeting the RBA's objective of portability as the likelihoods are listed in the consultation paper as being extremely low, very low and low respectively.
- For the objective of segregation, solution 2 goes part way to achieving this, but still leaves clients at risk to one another, and whilst solution 3 achieves segregation between house and clients it still leaves exposure to CP operational risk. Further, we have been informed by our back office supplier, GBST, that the changes required and the implementation of solution 3 is impracticable and will cost a lot of money. We have no idea how much it will cost because GBST tell us that there are too many unanswered questions relating to the solutions. Also, it is impossible to come up with any meaningful numbers in the short timeframe given to answer the consultation paper.
- There is a high level of investor protection under the current settlement framework.
- Allocation of trades between clients and house at the time of the trade or afterwards before T+1 will be difficult.
- The ability to pass margins through to clients is only really available under solution 3, which as said is an impracticable solution.
- Segregation and portability have limited relevance to the cash market due to the short settlement time period versus the derivatives markets.

#### ***Q2. Should other alternatives be considered?***

Strengthen investor protection through rules and legislation rather than imposing cash margining and split settlement systems on brokers.

#### ***Q3. Are there any other factors that should be taken into account?***

We have been asked for cost estimates, but are unable to provide them; however, the imposition of any changes needs to be costed and then properly weighed against the benefits.

#### ***Q4. Are there any other impacts or benefits of either model on Clearing Participants or their clients that should be taken into consideration?***

As above.

#### ***Q5. What, if any, would the implementation impact on Clearing Participants?***

Depending on the solution:

- Technical changes
- Ongoing operating costs under a more complex system
- Changes to procedures
- Staff training
- Perhaps an increase in staff requirements

***Q6. Should Clearing Participants be able to offer any of the options outlined to their clients?***

No, because we want, as much as possible, to operate on a level playing field with other brokers. Offering client solution choice would create more complexity for the client and we doubt Mum & Dad investors would fully understand the choices, and it is not something we want to have to explain to them – as we are trying to help them invest in the markets and in products.

***Q7. Do you believe a gross margin client omnibus account structure should be considered in order to facilitate margin pass-through?***

No, because of the nonsense application of the margining system to the cash market.

***Q8. Under the ISCA proposal, do you believe that final settlement should occur on a per client account basis or as one singly settlement across all clients?***

The potential implementation costs of this solution make it prohibitive, but the preference would be for a single settlement across all clients.

***Q9. Are there any comments on the proposal, especially on the operational impact?***

This will depend on what changes to CHESSE messaging are needed to make the stock repurchase arrangements work.

***Q10. Are there any other changes required to the Clearing Participant/client arrangements to facilitate the operation of the offsetting transaction arrangements?***

No.

***Q11. Are there any suggestions for alternatives that achieve the same regulatory requirement, particularly drawing on overseas experience?***

No.