



BNP Paribas Securities Services
Shortening the Settlement Cycle in Australia:
Transitioning to T+2 for Cash Equities

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Consultation Questions

Q1 Do you agree with the expected benefits from the introduction of a T+2 settlement cycle for cash equities? If so, please outline the key benefits to your organisation.

Yes, BNP Paribas Securities Services believe that the shortened settlement cycle would decrease the associated risk related to Clearing and Settlement activity. This would decrease the capital requirements (including Margin payments) placed upon trading and clearing participants accordingly. For any benefits to materialise the ASX would require changes to the operating rules accordingly.

The Australian DVP market enjoys one of the lowest failed trade rates globally and this is heavily reliant on the same day securities lending and borrowing sector to allow broker dealers to cover their potential failed trades/shorts in a timely manner. In this regard, BNP Paribas does not see any potential issue but feels that this may increase this activity or prompt local providers to formalise a fail coverage product.

Q2 What level of reductions in cash market margin and liquid capital requirements do you expect for your organisation from the introduction of a T+2 settlement cycle? Please indicate if you wish this information to remain confidential to ASX and the regulators, RBA and ASIC.

Further analysis is required of the proposed changes to the algorithms on a move to T+2 to be able to determine a precise reduction in cash market margins and liquid capital requirements. BNP Paribas Securities Services agrees there will be a reduction of these requirements. Changes to the operating rules would be required to support this.

Q3 Do you expect the costs associated with the implementation of T+2 to be relatively small, moderate or significant for your organisation? Can you provide a cost range for your implementation of T+2?

BNP Paribas Securities Services believe more details are required on the agreed approach to T+2 implementations to be able to determine the full impacts with our global infrastructure and required client communications.



BNP Paribas Securities Services global platforms already support the T+2 functionalities across other markets. As such, the implementation of the ASX moving to a T+2 should be small if the same single batch time is not changed. For our offshore client's initiated transactions, the global broker-dealer community will effectively manage this change during the execution process, with Securities Services aware once we have received a trade instruction for settlement only. We note that a number of other markets are moving to a T+2-settlement cycle in October and that this may assist in overall client education. We ask that the ASX provide further detail as to impacts, if any, on current corporate events, which today have reduced time frames such as accelerated rights issues.

- Q4** Do you consider that the potential net benefits expected from the introduction of a T+2 settlement cycle for cash equities warrants its introduction in the near term? If so, do you consider that:
- an implementation date in Q1 2016 should be targeted?
 - an earlier implementation date in 2015 is feasible for all industry participants and should be considered? If so, what implementation timing do you think should be targeted?
 - sequencing the transition to a T+2 settlement cycle with other markets is important, noting that EU member states will be required to operate a T+2 settlement cycle from January 2015?

BNP Paribas Securities Services' preferred option would be B, noting that we will be supporting the European market moves concurrently thus this allows us to complete Europe and focus on Australia in the 1st quarter 2015.

If there were development required across the industry, BNP Paribas Securities Services would be comfortable also supporting option A.

- Q5** To what extent do you currently utilise an automated centralised trade matching system? Please indicate which system you use.

BNP Paribas Securities Services internal platforms are currently using Omgeo's CTM platform for our clients for whom we provide a middle office matching service.

- Q6** What percentage of trades are verified manually by your organisation? If you use manual verification processes, what is the main reason for doing so?

All primary market RVP/DVP trades for clients whom we provide a matching service, are updated electronically via Omgeo.

- Q7** What is the percentage of trades where affirmation is completed on T+0?

Currently 80% of trades are matched on T.

- Q8** What are the main reasons for failure to achieve SDA?

Either the main reasons for failure to achieve SDA are due to late instructions or trade mismatches.



Q9 In what timeframe could your organisation be reasonably expected to achieve an SDA rate of over 90%?

This is dependent on the measures implemented but BNP Paribas Securities Services expect to achieve a 90% SDA rate by Quarter 3 this year.

Q10 What is the expected investment required for your organisation to implement a T+2 settlement cycle? Do you agree the changes required to implement a T+2 settlement cycle are largely configuration and behavioural changes rather than wholesale system changes?

BNP Paribas Securities Services have systems in place that can achieve matching on T to support the move to T+2. The challenge lies in the managing of client deliveries and broker executions. Therefore, we do not expect a high level of investment required as systems configuration will be minimal.

Q11 Please indicate the most significant reason for a delay in the release of settlement instructions to the market?

The majority of delays experienced on releasing settlement instructions to the market are due to stock shorts or for delays in setting up any new securities or confirming available securities for deliveries.

Q12 What are the key reasons for delaying the matching of settlement instructions until late in the afternoon of T+2 or in the morning of T+3?

The main delays of matching late on T+2 or the morning of T+3 are driven by client cut offs for settlement instructions as well as stock availability of counterparties.

Q13 Are investor location and time zone differences the main driver for delayed settlement instruction matching? Please indicate the main jurisdictions where delays are common.

BNP Paribas Securities Services does not believe that the investor location and time zone differences cause the delay in the matching of settlement instructions. This is typically driven by the underlying availability of the security.

Q14 Should the ASX require continued publication of settlement instructions so that they cannot be removed after initial publication and potentially delay the opportunity to match settlement instructions?

BNP Paribas Securities Services does not see a significant benefit in this.

Q15 Should the ASX consider enriching message information to facilitate more timely settlement instruction matching?

BNP Paribas Securities Services believe current messaging information is adequate, and would seek confirmation from ASX of what they are proposing further facilitate the matching process.



BNP Paribas Securities Services believes any changes to message enrichment should be optional to ensure more simplicity of implementation and adoption by many of our clients whom are global and dealing with several different matching criteria per market today.

Q16 Do you think that the introduction of a T+2 settlement cycle is feasible with the existing 10.30am settlement batch cut-off? Please state reasons for your view. If you act on behalf of foreign investors, please indicate the percentage of current trading volumes executed by foreign clients in Asian, US and European time zones.

Yes, BNP Paribas Securities Services believe it makes sense to segregate the move to T+2 settlements from a review of the current batch process.

However believes that there is merit in waiting for the European market migration to occur first as T+2 for European entities is effectively means a +1 window to resolve settlement queries should these need to be referred back to an entity in Europe. Allowing these clients local markets to align first will assist in the education process.

Q17 What are the main internal processes and procedural changes that your organisation would need to introduce to ensure T+2 and batch cut-off settlement deadlines are met? If you do not think moving to a T+2 settlement cycle is feasible with the existing 10.30am settlement batch cut-off, do you think delaying settlement batch cut-off to 11.30am or 12.00pm would provide sufficient additional time to assist in facilitating timely settlement? If so, would the benefits exceed the cost of the flow-on impacts (for example, the likely need to change payment provider deeds and delaying the ASX settlement authorisation notification, payment provider authorisation, and registration cut-off times, together with delaying participant back office processing related to post settlement activity)?

BNP Paribas Securities Services would support the same 10:30am settlement batch cut off within the T+2-settlement cycle.

Support of this would make the move to T+2 the most simplistic requiring minimal changes to existing processes and procedures that are based around the current 10.30am settlement batch processes.

Q18 What are the main internal processes and procedural changes that your organisation would need to introduce to ensure later batch cut-off settlement can be supported, including internal funding arrangements and operational resource availability?

BNP Paribas Securities Services would prefer to keep the current batch settlement cut off to keep changes to processes and procedure minimal.

Any alteration of the current batch process would require multiple infrastructure changes to systems and further analysis would be required to review internal funding processes and possibly support multiple batches. These would encompass:

- **Daily funding undertaken locally, regionally and globally across cash, FX, and reinvestment**
- **Intraday flows**
- **Impacts to other activities including Fixed Income Settlements**
- **IT modifications and all existing timings of cash interfaces around the ASX process**

Q19 Would extending the CHES system start or end of day times assist with achieving timely settlement in a T+2 settlement cycle? For example, would it assist with off-shore processing?



No, BNP Paribas Securities Services does not see any major benefits to extending the CHES start of and end of day times.

Q20 What are the key drivers for settlement failure? Is the lack of access to stock borrowing arrangements or availability of stock a significant driver for failed delivery?

No, BNP Paribas Securities Services see the key drivers for settlement failure, as being counterparties being short to deliver and this is usually a result of a failed delivery of their client underlying client /awaiting confirmation of offshore, originated activity.

Q21 Please indicate whether you believe the continuation of the current regime and the automatic close-out requirement will provide the appropriate incentives for timely settlement in a T+2 environment.

BNP Paribas Securities Services believe the impacts of the current automatic close out regime should move to be in line with the reduction of a day within the settlement cycle.

Q22 Should the current close-out regime be changed to settlement date +1 (T+4) instead of settlement date +2 (T+5) with the introduction of a shortened settlement cycle?

BNP Paribas Securities Services believe a move to a T+4 close out regime would make sense with the reduction of a day within the settlement cycle however suggests that this be implemented in a phased approach to allow global market participants a stabilisation period.

Q23 Do you think further consideration should be given to using CHES's existing RTGS functionality to manage late settlements? What would your organisation need to do to use CHES's existing RTGS functionality? What would your payment provider need to do to use CHES's existing RTGS functionality?

No, BNP Paribas Securities Services does not believe this is needed to be implemented with the move towards to T+2 and we envisage little use of this.

Q24 Do you think further consideration should be given to running an additional settlement batch to manage late settlements? How do you expect an additional settlement batch would impact your organisation, including the potential cost impact

BNP Paribas Securities Services believe any support of a second settlement batch would increase costs of implementation and would require changes to existing processes and procedures for the reasons outlined in Q18, which be complicated by a two-step process.

Q25 If running an additional settlement batch introduces material additional costs or regulatory considerations for industry stakeholders or the ASX, would this change your response?



No, the response of BNP Paribas Securities Services would not change in this matter as our objective is the overall security, settlement efficiency, ease of investment and transparency of the market for our clients and operational teams.

Q26 Do you have other suggestions for addressing late settlements? Are you able to quantify whether late settlements are a significant issue for you? In your view, is the current mechanism – moving securities free-of-payment through CHESS while moving cash separately – sufficient?

Currently BNP Paribas Securities Services do not see late settlements as a significant issue. In our experience, the transactions moving through the market on a free of payment basis would continue such as asset transitions, collateral movements, securities lending and borrowing activities.

The current free of payment process serves a purpose as it incentivises early matching and the focus is already on the 10.30 am settlement batch.

Q27 What role do you think that investor education can play in minimising the potential for increased settlement failure following the introduction of a T+2 settlement cycle? Do you think there is merit in ASX working with the industry to undertake investor education in relation to the transition to T+2?

BNP Paribas Securities Services believe the ASX seminars, ASX On-line notifications and publications on the subject should to be readily available, for the purpose of investor education, to support the move to T+2. Ultimately, the broker-dealers who execute on behalf of their clients will rely on the first level of education for the direct investor.

Q28 Are there particular corporate action events for which the adoption of a T+2 ex period creates significant difficulties?

BNP Paribas Securities Services believe that although volumes will be low there will be potential impacts on cross border activity and accelerated rights issues or any event type where securities cannot be purchased in the event window timeframe to ensure hedging/protection.

Q29 Do you think that a T+1 settlement cycle is achievable to facilitate trading in special markets?

BNP Paribas Securities Services believe this may not be achievable as this could be a significant challenge to our clients. Any support of this would require more settlement batches on the T+1 cycle leading to more investment, process and procedural changes and make investing overly complicated for our offshore clients who are typically using a global broker-dealer and a local executing broker but trading via an appointed Investment Manager and settling via a custodian. This communication channel before the trade reaches the custodian for settlement would allow no room for mismatch and introduce an element of risk for the offshore investor. This could also impact the securities lending and borrowing sector as this allows little time to recall securities to support a client sale.



Q30 Do you support the same approach to the timing of trade netting being taken in a T+2 settlement cycle (that is, settlement date minus two business days (T+0) to allow the netted settlement obligation positions to be available to all participants one day prior to settlement)?

BNP Paribas Securities Services support this approach, however a push for earlier receipt of netting obligations would be beneficial to support the tightened settlement cycle.

Q31 Will there be significant impacts for your organisation if trade netting was to occur on T+0 if a T+2 settlement cycle is introduced?

There would be no significant impact on BNP Paribas Securities Services if trade netting were to occur on T+0. This is providing that the receipt of the netting obligation from the ASX to be also received on T+0 to support this.

Q32 Do you expect a significant impact to securities lending activity due to the introduction of a shortened settlement cycle? If so, please outline the expected impact?

BNP Paribas Securities Services would anticipate an increase of volumes required to support potential fail coverage, and based on our experience this is what we have seen from other international markets moving to short settlement timeframes.

Otherwise, the securities lending market has a large component of same day activity today and we do not expect any technical, operational or reconciliation issues in supporting a move from T+3 to T+2.

We do feel that this may deter some offshore lenders from lending Australian securities as the recall period maybe impacted should they wish to sell a security. However, this should be minimal or managed by the onshore desks of any global Lending entity.

Q33 Are there any significant additional client or business risks that have not been identified in this paper?

BNP Paribas Securities Services believe:

- **A review for the move of the Austraclear settlement process, the move to the same settlement cycle should be included and considered.**
- **The paper also should highlight and question the possible products that will not fit into T+2 cycle. Products including ADR's, CDI's, AGB's and Cross Border activity needs further analysis to understand if the settlement cycle of T+2 is achievable for all CHES activity.**
- **If not already, include direct consultation with offshore investors for dually listed securities**

