

## **Submission on ASX T+2 Consultation Paper by Instinet Australia Pty Limited**

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#### **1. Introduction**

This submission is provided by Instinet Australia Pty Limited (**'Instinet'**). A member of the world-wide Instinet Group, Instinet Australia is an agency-only, institutional stockbroker and a Market Participant of the Australian Securities Exchange and Chi-X Australia as well as being a General Participant of ASX Clear and ASX Settlement facilities. It holds Australian Financial Services Licence No. 372834.

Instinet appreciates the opportunity to provide this feedback about this important development in the Australian settlement cycle processing landscape. Instinet fully supports the Australian market moving to a T+2 settlement environment and suggests that this should be done sooner rather than later with a target date of Q1 2015. Instinet also suggests that the Australian market should also push on even if our New Zealand counterparts decide not to implement a T+2 settlement cycle. Differences in settlement cycles across these markets could be managed procedurally and with the use of stock lending agreements and we believe that the whole market should not be disadvantaged for the sake of a small number of investors or facilitation desks who trade across these markets.

Instinet would welcome the opportunity to expand on any matters canvassed in the Consultation Paper and addressed in our response.

#### **2. Responses to individual questions as appropriate.**

Q1 Yes, Instinet expects to see benefits with a reduction in Regulatory Capital requirements, Cash Market Margins and a risk reduction in counterparty exposures.

Q2 We expect that there would be meaningful savings for Participants who are subjected to Cash Market Margins. Any reductions to margins payable to the Exchange will be of benefit to all brokers.

Q3 We expect that the costs associated to us will be minimal. Our Global systems already cater to other markets that currently operate in a T+2 environments and expect that configuration changes are all that is required to support T+2 in Australia.

Q4 a No, We believe a target date of Q1 2015 is achievable due to limited IT enhancements required and should be considered. The majority of European markets are moving to a T+2 environments by Q1 2015 and this change will be high on institutional investor's agendas. Australia should be looking to introduce T+2 to the Australian market and benefit from the momentum achieved by the introduction in other regions.

Q5 Same Day Affirmations are currently over 95%. Instinet utilises CTM for approx 40% - 50% of clients trading in Australia. We also use IRESS for a small number of AU clients.

Q6 Less than 30%. This is based solely on client preferences.

Q7 90%+ on a daily basis

Q8 Client delays based on the location of the client.

Q9 We are already achieving this target.

Q10 Minimal. Our Global systems already cater to other markets that currently operate in a T+2 environments and expect that configuration changes are all that is required to support T+2 in Australia.

Q11 The time of the releasing DVP CHESSE messages to market is procedural. The release of CHESSE messages prior to T+2 is normally restricted as to control associated risks of creating short positions in the Participants settlement accounts.

Q12 CHESSE messages are being delayed from release to CHESSE until T+2 afternoon or T+3 mornings in order for Brokers / Participants to manage or reduce their risk of receiving CHESSE fail fees on illiquid stocks or stocks not readily available for stock loan. Brokers will typically wait for their inward DVP messages to be matched prior to releasing their outward delivery messages. Some local Custodians will not release their messages into CHESSE until the afternoon of T+2 as a matter of procedure thus causing the whole release and matching process to be delayed.

Q13 No, we do not see this in our business.

Q14 No.

Q15 No, additional fields may cause additional reasons for non-matching of messages. There have been some past industry discussions on having a mandatory matching field for reference numbers (mainly around IPO's). Instinet does not have a requirement for this and would suggest that prior to introducing any further mandatory matching fields in CHESSE that the industry is specifically consulted on the topic prior to implementing any changes.

Q16 We believe that the introduction of a T+2 cycles and a 10:30am cut off is feasible. The current cut off times is widely recognized by all investors locally and around the globe. We would also not have any issues if the cut off time is extended to allow for any late instructions to be received and processed by Custodians. Any increase in cut off time should be limited to no later than 11:30am so that the knock on effect to the other daily back office tasks and funding processes remains minimal. If it is found that there is a significant increase in fails post implementation of a T+2 cycles, then consideration should be given potential for further extensions to the cut off time in consultation with all relevant CHESSE participants.

Q17 Procedural changes would be minimal by moving to a T+2 environments. The majority of our processes are based on SD-1 or post settlement..

Q18 The main concern for us in extending a settlement cut off beyond 11:30am is around funding and the associated delays in the completion of the CHESSE settlement cycle. Extended delays in completion of the settlement cycle have a negative impact on the finance teams and stock lending activities.

If there is a Participant default that occurs in CHESS during the settlement cycle then there needs to be sufficient time for the ASX to be able to roll back the process and implement their close out obligations.

Q19 An extension to the CHESS system starts or end times would not have any effect on our business. We would not have any issues if these times were extended to meet other Participants requirements.

Q20 Client short positions in their custodian accounts and limited access to stock lending facilities.

Q21 Automatic close out should continue in its current form. We find this a very effective tool in ensuring timely settlement of buy and sell transactions.

Q22 Yes, any change in settlement cycle should include a reduced time frame to close out failed sell transactions

Q23 Instinet does not currently use this functionality and utilises other methods of payment to complete settlement outside the settlement batch when it is required. We would only utilise this functionality if the majority of Participants implemented this functionality and started to use it.

Q24 Absolutely not. The introduction of a second settlement batch would lead to some Participants employing lax procedures and deliberately delaying settlements to the later batch as a default. The introduction of a second batch would cause a duplication of work across the Back Office and add further stresses to processes and cut off times relating to funding, trust accounting, settlement monitoring, stock lending and associated repays, Corporate Action protections and banking. This is a significant amount of work and would add significant costs and administration burdens to Participants.

Q25 We do not support the idea of any additional settlement batches.

Q26 Delayed settlement is always an ongoing concern for the industry as a whole. We spend a significant amount of time and resources reviewing of our Back Office systems and processes. We believe that the current processes available to us are sufficient for our requirements in a T+3 or T+2 environments.

Q27 Investor education and awareness is critical if a T+2 settlement environments are to be implemented successfully. We believe that the fail fees that are imposed on Participants should be reinvested into the industry used to fund (or partially fund) investor awareness.

Q28 With the implementation of a shortened Corporate Action cycle to be implemented on 14<sup>th</sup> April 2014 most of the Industry issues have already been addressed. If we proceed to a T+2 settlement environment then these changes should be reviewed and amended accordingly to suit a T+2 settlement cycle.

Q29 Yes as long as the clients are educated appropriately. We currently see clients able to achieve T+1 settlement when they make the requests to do so.

Q30 Yes

Q31 No

Q32 We may see an uptick in the initial implementation but as clients become more aware of and accustomed to the reduced settlement cycle we expect that activity would return to current levels. There are other markets who already have introduced T+2 and with the majority of Europe moving in Q4 2014 investor education will already be high on their back office agendas.

Q33 Consideration should be given by the ASX to waive fail fees for a period post implementation of a T+2 settlement cycle.

### **Section 3. About Instinet**

#### **1. Instinet Australia**

Instinet Australia Pty Limited (**IAPL**) is a wholly owned member of the Instinet group of companies.

IAPL is an agency-only institutional stockbroker and is a Market Participant of the Australian Securities Exchange and Chi-X Australia as well as being a General Participant of ASX Clear and ASX Settlement facilities. It holds an Australian Financial Services Licence.

#### **2. Instinet Group Overview**

The Instinet group was founded in 1969 and provides global agency broker services. The Instinet group launched the first electronic block-crossing capability for institutions and has been a leader in trading innovation ever since that time.

The Instinet group has developed advanced trading technologies that connect portfolio managers and traders directly to equity markets around the world, including our upstairs liquidity pools, where clients can trade without market exposure. It also provides enhanced trading services, including algorithms, crossing networks, agency sales trading, global portfolio trading, commission management and third-party research.

The Instinet group provides the trading expertise and advanced technology necessary to successfully interact with more than 50 worldwide securities markets.

Acting solely as an agent for its customers, which include international mutual funds, insurance companies, pension funds and hedge funds, the Instinet group seeks to improve institutional investment performance and lower overall trading costs through its various front end trading systems, securities crossing networks, algorithms and investment research products.

The Instinet group operates across a number of Asia-Australia markets as well as in Europe and the U.S. and has an extensive network of clients.

The Instinet group provides value to global investors primarily through our Sales, Trading and Technology personnel. The Instinet group has a strong global network of Sales Traders, Execution Traders, Salespeople and Algorithmic and DMA trading experts based in Asia, Australia, Europe and the USA with over 1,000 employees.

The Instinet Group is held by NHI Acquisitions Holdings Inc., which is wholly owned by Nomura Holdings Inc. The Instinet Group is headquartered in New York and maintains offices in North America, Europe and the Asia/Australia region. The Instinet group comprises Instinet International Corporation (Delaware) and its direct and indirect subsidiaries.