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Monday, 7 April 2014

Regulatory & Public Policy
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Attention: Ms Diane Lewis
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Computershare submission to ASX on Shortening the Settlement Cycle in Australia consultation paper:

Transitioning to T+2 for Cash Equities - Dated 25 February 2014

Executive Summary

Thank you for the opportunity to provide feedback on your proposal to shorten the settlement cycle for the settlement of Cash Equities in Australia by transitioning from a T+3 to a T+2 settlement cycle.

Computershare supports this ASX initiative. We note that a move to T+2 in Australia would align it with global developments on settlement cycles, with other markets adopting a T+2 settlement cycle in recent years including Hong Kong, Germany, India. We further note that the United Kingdom and a number other EU member states will move to T+2 in October this year and there is current dialogue in Singapore about a move to T+2 in 2016.

In addition to those markets currently in the process of moving to a T+2 settlement cycle, we understand the US are in a discussion phase, with both the Depository Trust and Clearing Corporation (DTCC) and the Securities Exchange Commission (SEC) pushing to move their settlement cycle to T+2 and possibly even T+1 at a later stage.

Should you wish to discuss our response, please feel free to contact me on the details below.

Regards,

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Appendix A – ASX Consultation Questions

Please find detailed below an extract of the questions taken from the consultation paper, along with our responses. We have noted items that are not relevant to our role as share registry.

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.

Our feedback: Whilst we agree with the expected benefits outlined in the Consultation Paper, this is broadly on the basis of the benefits to the market as a whole, rather than any specific benefits to our organisation (which we would expect to be minimal).

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.

Our feedback: Not applicable to our role.

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?

Our feedback: The cost to Computershare across our business groups is expected to be moderate. There will be a need for configuration changes, end-to-end testing (including testing with CHESS test interface), implementation planning and some development across our share registry and other operational systems we use.

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:

a. an implementation date in Q1 2016 should be targeted?

b. 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?

c. 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?

Our feedback: Computershare's preference is for an implementation date of Q1 2016 to be targeted, as we consider that this will be the most realistic in view of the development requirements. However, if the consensus across the market is that an earlier implementation date should be targeted, then Computershare would seek to accommodate it.

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

Our feedback: Computershare does not use an automated centralised trade matching system.

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?

Our feedback: In the context of our primary role as Share Registry, we have a low volume of trading activity and as a result our trades are matched manually.

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

Our feedback: 100% of our trade affirmations are completed on T+0.

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

Our feedback: Not applicable to our role.

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

Our feedback: Not applicable to our role on the basis that we match all trades manually.

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?

Our feedback: We confirm that the system changes required by Computershare will involve reconfiguration adjustments and some minor system development changes, rather than wholesale system changes. Cost of investment is yet to be fully determined and may vary depending on the chosen implementation timeframe.

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

Our feedback: In terms of how we operate, the only delay that we would expect to encounter is in a situation where a broker has failed to issue a contract note on a timely basis (which would be highly unusual).

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?

Our feedback: See our response to Q11 above.

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.

Our feedback: Not applicable to our role.

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?

Our feedback: Not applicable to our role.

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

Our feedback: Not applicable to our role.

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.

Our feedback: From our perspective, we believe that the introduction of a T+2 settlement cycle is feasible with the existing 10.30am batch cut off. We have taken this view on the basis of the structure of our internal operations, where, with the exception of how we match messages, everything is automated and, accordingly, there is expected to be no impact to our 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)?

Our feedback: Computershare Plan Managers facilitates purchases on behalf of clients and sales on behalf of plan participants. Funds transfer processes to support purchases will be revised in line with the changed timeframe. Various internal reconciliation processes for sale settlements are already under review and will be in place for the move to T+2.

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?

Our feedback: Not applicable to our role.

Q19 Would extending the CHESS 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?

Our feedback: Not applicable to our role; however we note that any change to the current process and timing for CHESS EOD could have an impact on our role as registrar, particularly if there were to be a delay in the EOD process. This would result in less time for Computershare to update its client registers each evening with the details of the day's net movements.

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?

Our feedback: Noting our response to Q11, we do not have any failed trades as the holders we deal with are all CHESS Sponsored and hence in the context of the question, we are not in a position to comment.

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 aT+2 environment.

Our feedback: Not applicable to our role.

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?

Our feedback: Not applicable to our role.

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

Our feedback: Not applicable to our role and how we operate.

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

Our feedback: Not applicable to our role and how we operate.

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?

Our feedback: Not applicable to our role and how we operate.

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?

Our feedback: Not applicable to our role and how we operate.

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?

Our feedback: We believe the onus should be on brokers, both through the education of their clients and their internal policies with respect to ensuring purchases are funded on time.

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

Our feedback: We have considered this and do not believe there to be any current corporate action types for which the T+2 ex period would create significant difficulties.

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

Our feedback: Possibly, noting that the same principles apply in special markets; however we do expect that this would cause concerns for others in the market i.e. a full service broker.

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)?

Our feedback: Not applicable to our role as Share Registry.

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?

Our feedback: We do not expect there to be any significant impacts on our business.

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?

Our feedback: Not applicable to our role as Share Registry.

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

Our feedback:

We note that ASX has not made mention of the timing for off-market transfers in the consultation paper. Currently under Appendix 8A of the ASX listing rules, timing is specified as within 3 business days of receipt for the processing of off-market transfers. Due to the risks associated with the processing of off-market transfers, we advise that should this come into consideration in the context of a move to T+2, we are of the strong opinion that the timing for processing of off-market transfers should remain unchanged.