



2 April 2014

Ms Diane Lewis
Senior Manager
Regulatory & Public Policy
ASX Limited
20 Bridge Street
Sydney NSW 2000

Dear Ms Lewis,

**Submission:
Transitioning to T+2 for Cash equities**

Omgeo is a service provider in the Australian market that helps automate cash equities post-trade processing between investment managers, broker/dealers and custodian banks. By streamlining post-trade operations such as confirmation, allocation, Standing Settlement Instructions (SSI) enrichment and settlement notification using our platform, clients are able to accelerate the clearing and settlement of trades whilst reducing operational risk and cost.

General Comment:

Omgeo is supportive of the transition to T+2, which we believe will increase the robustness of the Australian cash equities market by reducing overall systemic risk. In our view, settlement is a critical component of operational risk management, and faster settlement reduces counterparty risk exposure whilst promoting more efficient use of capital.

Consultation Questions:

1. 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, we agree with the expected benefits: reduction in counterparty risk and overall systemic risk, reduction in the regulatory capital required, harmonization with other markets, encouraging increased post-trade cost efficiencies.
2. 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.	No comment.

<p>3. 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?</p>	<p>Whilst Omgeo is not itself a market participant, we have insights into post-trade practices across various segments in this market. Given automation technology is available and in use, with Australia ranking as one of the most automated markets in the region for post-trade processing, we believe implementation of T+2 will be small to moderate for the market as a whole, with required changes primarily associated with procedures and processing standards (e.g. requiring same day affirmation) rather than the development and/or implementation of new systems.</p>
<p>4. 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:</p> <ul style="list-style-type: none"> 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? 	<p>No comment.</p>
<p>5. To what extent do you currently utilise an automated centralised trade matching system? Please indicate which system you use.</p>	<p>Automated central trade matching is in use in Australia for processing both domestic and international equities, as well as fixed income transactions. Compared to other markets, Australia is one of the most automated markets for post-trade processing in Asia Pacific.</p>
<p>6. What percentage of trades are verified manually by your organisation? If you use manual verification processes, what is the main reason for doing so?</p>	<p>Based on our knowledge of the market, including a recent APAC-wide survey on post-trade practices which included respondents in Australia, we estimate around 90% of Australian equities volume is processed using automated matching solutions and 10% is processed manually.</p>

<p>7. What is the percentage of trades where affirmation is completed on T+0?</p>	<p>Same day affirmation, for firms using automated central matching solutions, is about 81% (18% on t+1, 1% on t+2) for equities. This is based on a December 2013 analysis of our clients processing trades executed in the Australian market. Since we started collecting and analysing this data, we have seen an overall improvement Australian same day affirmation rates, although we note that on this measure Australia's same day affirmation rates are below the norm for Asia Pacific (91%) and, in particular, other key markets such as Hong Kong (94%), Japan (93%) and Singapore (90%).</p>
<p>8. What are the main reasons for failure to achieve SDA?</p>	<p>Australian same day affirmation rates are comparatively low despite Australia being ranked as one of the most automated markets in the region for post-trade processing during a recent analysis commissioned by Omgeo. This suggests that lower SDA rates are driven more by behavioural/ procedural factors than by access to the technology and systems needed to efficiently process trades.</p>
<p>9. In what timeframe could your organisation be reasonably expected to achieve an SDA rate of over 90%?</p>	<p>No comment.</p>
<p>10. 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?</p>	<p>Yes, given that the required automation technology is available and already in use, we agree changes in required the Australian markets are largely configurational.</p>
<p>11. Please indicate the most significant reason for a delay in the release of settlement instructions to the market?</p>	<p>A significant reason is likely to be manual delivery of SSI details by some firms, in contrast to automated 'enrichment' whereby instructions are added automatically to the post-trade processing workflow from centrally maintained SSI database.</p>
<p>12. 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?</p>	<p>Behavioural/ procedural factors are a key driver, such as locally accepted norms with respect to cut-off deadlines for reconciling unmatched trades (for example).</p>
<p>13. Are investor location and time zone differences the main driver for delayed settlement instruction matching? Please indicate the main jurisdictions where delays are common.</p>	<p>No comment.</p>

<p>14. 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?</p>	<p>No comment.</p>
<p>15. Should the ASX consider enriching message information to facilitate more timely settlement instruction matching?</p>	<p>No comment.</p>
<p>16. 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.</p>	<p>No comment.</p>
<p>17. 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)?</p>	<p>No comment.</p>
<p>18. 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?</p>	<p>No comment.</p>
<p>19. 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?</p>	<p>No comment.</p>

<p>20. 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?</p>	<p>Inaccurate SSIs are a primary reason for trade failure.</p>
<p>21. 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.</p>	<p>No comment.</p>
<p>22. 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?</p>	<p>No comment.</p>
<p>23. Do you think further consideration should be given to using CHESSE's existing RTGS functionality to manage late settlements? What would your organisation need to do to use CHESSE's existing RTGS functionality? What would your payment provider need to do to use CHESSE's existing RTGS functionality?</p>	<p>No comment.</p>
<p>24. 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</p>	<p>No comment.</p>
<p>25. If running an additional settlement batch introduces material additional costs or regulatory considerations for industry stakeholders or the ASX, would this change your response?</p>	<p>No comment.</p>
<p>26. 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 CHESSE while moving cash separately – sufficient?</p>	<p>No comment.</p>
<p>27. 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?</p>	<p>We think there is merit in organisations like the ASX working with industry to undertake investor education in relation to the transition to T+2. Much of the adjustment is behavioural and procedural, and ensuring the wider market understands the benefits and requirements of T+2 will help the transition, minimise disruption and enable investors and the community generally to understand the role of market infrastructure and have confidence in it.</p>

28. Are there particular corporate action events for which the adoption of a T+2 ex period creates significant difficulties?	No comment.
29. Do you think that a T+1 settlement cycle is achievable to facilitate trading in special markets?	No comment.
30. 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)?	No comment.
31. 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?	No comment.
32. 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?	No comment.
33. Are there any significant additional client or business risks that have not been identified in this paper?	No comment.

In addition to benefits outlined above, we believe harmonization in itself makes markets more efficient globally and individual markets more competitive with one another. Omgeo is active in 52 markets around the world and has a significant presence in Asia Pacific where many markets including India, Hong Kong and Taiwan operate on T+2 already. As Europe and other major markets move towards a two-day cycle, it is likely T+2 will become the global standard. Given Australia is already one of the most automated markets in the region, the impact of implementing T+2 is likely to be largely configurational, requiring investment in changing procedures and educating the broader market. While there will be disruption in the short-term, we believe the long-term benefits to the Australian market and Australian firms justify the transition.

We are extremely supportive of this important industry discussion.

Yours truly,



Matthew Chan
 Director, Enterprise and Strategic Planning (APAC)
 Omgeo Pty Ltd