



T+1 POSITION PAPER

Insights from the
Australian Custodial Services Association

March 2024



FORWARD

As the financial landscape evolves, the Australian Custodial Services Association (ACSA) continues to be at the forefront of discussions surrounding market infrastructure and settlement practices. In this rapidly changing environment, the topic of T+1 settlement has emerged as a significant point of interest and debate.

The move towards T+1 settlement represents a potential paradigm shift in how transactions are settled in the Australian market. It promises benefits such as reduced counterparty risk, increased efficiency, and enhanced market liquidity. However, it also raises questions and considerations that warrant thorough exploration and analysis.

To gain deeper insights into the sentiments and perspectives, ACSA conducted a survey of ASX participant members aimed at capturing their thoughts and opinions on T+1 settlement. This survey sought to understand the potential implications, challenges, and opportunities associated with transitioning to a T+1 settlement cycle.

The following paper presents the findings from this survey, providing a detailed overview of the diverse range of viewpoints expressed by our members. It is important to note that the views presented in this paper reflect the opinions of the respondents to the survey.

While the findings outlined in this paper offer valuable insights into the prevailing sentiments within our community, it is essential to recognise that the transition to T+1 settlement requires careful consideration of various factors, including regulatory requirements, technological readiness, and market participant readiness.

ACSA remains committed to facilitating open dialogue and collaboration among its members as we navigate the complexities associated with market infrastructure reform. The insights gathered from this survey will serve as a foundational resource for informing ongoing discussions and shaping future initiatives related to settlement practices in the Australian market.

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Introduction

The Australian Custodial Services Association (ACSA) is actively engaged in discussions regarding the transition to T+1 securities settlement across equity and bond markets in Australia. This move, with its anticipated benefits and challenges, represents a significant evolution in the industry.

The key benefits include a reduction in counterparty risk, enhanced efficiency, real-time communication, standardisation of timing standards, liquidity and funding benefits, and operational model optimisation. Moreover, ACSA sees the transition as an opportunity for Australia to align its market practices with global standards and engage in comprehensive re-engineering.

However, there are acknowledged challenges, such as an anticipated initial increase in fail rates, liquidity costs, extended operating hours, implementation costs, regulatory framework adjustments, and potential unintended consequences.

ACSA encourages learning from other international transitions and global markets moving away from T+2 settlement. Further, ACSA recommends collaboration across the value chain, training and education, a global support model, and leveraging data analytics for a successful transition.

While ACSA engages in T+1 settlement discussions, it encourages the need to balance it against key market infrastructure upgrades. The new "CHES" replacement is expected to incorporate T+1 readiness, ensuring a seamless integration of the settlement cycle with market infrastructure upgrades.

This paper discusses the risks and considerations in T+1 preparation, emphasising market-wide preparedness, process enhancement, stakeholder readiness, understanding capital requirements, and global connectivity.

In conclusion, should market participants conclude for Australia to move to T+1, ACSA expectation is a seamless transition, emphasising collaboration, technological readiness, and strategic planning to navigate the complexities of this transformative journey in the global financial landscape.





Benefits of T+1 Settlement in Australia

ACSA has identified several key benefits that underscore the case for T+1 settlement:

1. Counterparty Risk Reduction:

- **Current Scenario:** Custody clients grapple with counterparty risk for a two-day settlement period.
- **T+1 Vision:** A reduction to one day in the settlement cycle significantly mitigates counterparty risk, fostering a more secure trading environment.

2. Enhanced Efficiency and Real-Time Communication:

- **Building on T+2:** Leveraging the gains from the previous transition to T+2, T+1 aims to boost Straight Through Processing (STP) rates and facilitate real-time communication between market participants.

3. Standardisation and Best Practices:

- **Formalising Timing Standards:** The move to T+1 seeks to formalise standard timing and best practices, including in areas like trade matching, thereby reducing exceptions and improving overall operational efficiency.

4. Liquidity and Funding Benefits:

- **Accelerated Settlement:** Investors gain quicker access to funds post-trade execution, and liquidity risk diminishes with reductions in margining and capital consumption.

5. Operational Model Optimisation:

- **Incentivising Change:** T+1 serves as a catalyst, encouraging stakeholders within the value chain to review and optimise operating models, aligning Australia with global standards.

6. Global Alignment and Re-engineering:

- **Strategic Positioning:** Australia can use the move to T+1 as an opportunity to align its market practices with global standards and best practices, transcending mere technology-based changes to comprehensive re-engineering.

Challenges and Considerations

ACSA highlights potential challenges that market participants need to consider:

1. Anticipated Increase in Fail Rates:

- **Initial Teething Issues:** ACSA acknowledges the likelihood of an initial uptick in fail rates, particularly in trade allocation processes and affirmations on the trade date.
- **EFT trading cycles:** Shortening the settlement cycle impacts EFT creation and redemption timelines for market makers.

2. Liquidity Costs and Funding Imbalances:

- **Same-Day FX Trading:** The shift to T+1 entails an additional day of funding costs, posing challenges in same-day FX trading and managing potential funding imbalances.

3. Extended Operating Hours and Staffing Costs:

- **Operational Dynamics:** Longer operating hours necessitate additional staffing costs, prompting a reassessment of operational models.

4. Implementation Costs and Legacy Technology:

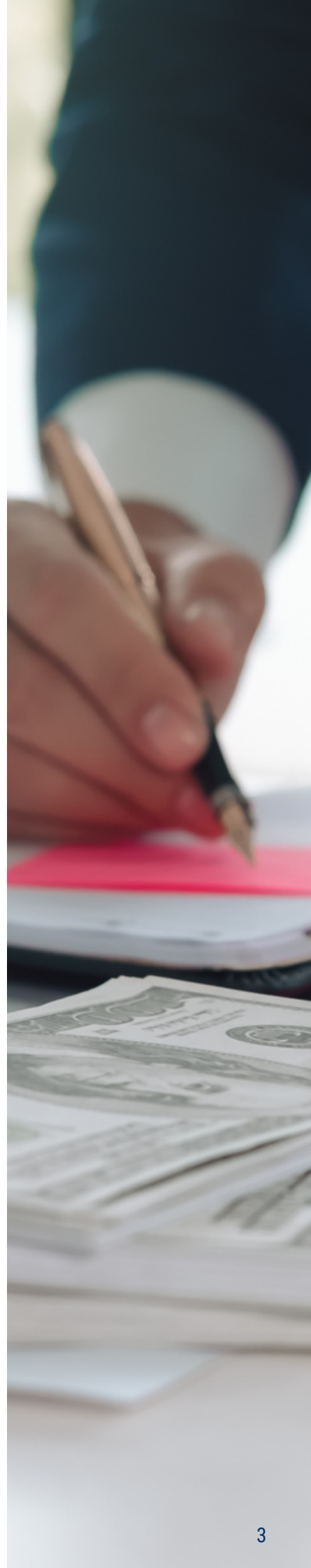
- **Financial Commitment:** Preparing for T+1 involves significant implementation costs, including technology upgrades.
- **Legacy Challenges:** Ensuring that legacy technology and globally connected platforms can effectively manage the transition is crucial.

5. Regulatory Framework and Market Infrastructure:

- **Harmonisation Challenges:** Possible revisions to local market regulations and frameworks, coupled with the lack of harmonised industry standards, pose considerable challenges.
- **Global Connectivity:** Addressing time zone differences, payment and settlement market infrastructure operating hours, and the impact on foreign investors are critical considerations.

6. Corporate Actions and Unintended Consequences:

- **Alignment Challenges:** Corporate Actions processing faces hurdles in aligning effective dates and ex-dates across all events.
- **Risk of Trading Offshore:** Unintended consequences may include a possible drop in liquidity or the migration of trading offshore.



Australia in the Global T+1 Landscape

With global markets moving away from T+2 settlement, Australia's alignment with T+1 appears increasingly inevitable, and ACSA emphasises the need for Australia to stay abreast of international standards. As the United States transitions to T+1 in 2024, Australia stands to benefit from observing the global implications.

ACSA acknowledges the activities in markets globally and the importance of collaboration, effective communication, and industry support.



1. Global Transition Trends:

- **Global shifts away from T+2:** According to a recent whitepaper on market trends, 89% of respondents anticipate a global shift away from T+2 settlement in the next five years.
- **Australia's Positioning:** With markets in the Americas and Europe making strides toward T+1, Australia may find itself compelled to align with international standards.

2. Learning from International Transitions:

- **Lessons from India:** ACSA advocates drawing insights from India's move to T+1, where improvements in accuracy, quality, and timeliness of information were observed post-initial challenges.
- **Observing China and Hong Kong:** ACSA recommends studying China's T+0 and Hong Kong's T+0/T+1 Stock Connect processes for valuable lessons in collaboration and effective communication.
- **Monitoring US market changes:** ACSA recommends closely monitoring the May 2024 transition in the US to understand the challenges and implications for change in Australia.

Australia in the Global T+1 Landscape (Cont)

3. Strategies for Successful Transition:

- **Collaboration Across the Value Chain:** ACSA emphasises the importance of collaborative efforts across regulators, market participants, custodians, and global investors to understand pain points and best practices.
- **Training and Education:** Effective communication, training, and education sessions are deemed critical for equipping market players and investors with the necessary knowledge for a smooth transition.



4. Other Considerations:

- **Global Support Model:** ACSA suggests a unified approach across geographical locations to support global clients.
- **Data Analytics and Robust FX Programs:** Enhancing investor understanding of historical trends to mitigate risks will be critical through the use of data analytics tools and robust FX and funding programs,



Prioritising T+1 vs. Market Infrastructure Upgrades

While T+1 settlement is crucial, ACSA emphasises the need to balance it against key market infrastructure upgrades.

1. Global Trends in Financial Market Infrastructures (FMIs):

- **Market feedback:** Accelerated settlements (to T+1) emerged as the top change impacting FMIs across European, Asia Pacific, and North American markets.
- **Decoupling Considerations:** ACSA underscores the importance of decoupling considerations for T+1 and market infrastructure upgrades, balancing the benefits and efforts of each.

2. Technological Readiness and the New "CHESS" Replacement:

- **Holistic Integration:** The new "CHESS" replacement should ideally incorporate T+1 readiness, ensuring a seamless integration of the settlement cycle with market infrastructure upgrades.



3. Infrastructure Readiness:

- **Technological Preparedness:** ACSA emphasises the importance of ensuring technological preparedness across intermediaries and market infrastructure, capable of handling increased transaction volumes associated with T+1.

4. Investor Assurance and Market Changes:

- **Parallel Implementation:** ACSA asserts that market changes required to support T+1 should be implemented in tandem with infrastructure upgrades, ensuring a synchronised transition.

Risks and Considerations in T+1 Preparation:

Preparing for T+1 involves a comprehensive, market-wide effort beyond settlement concerns. ACSA recommends:

1. Market-Wide Preparedness:

- **Adequate Timeline:** Preparing for T+1 requires a market-wide, precautionary approach, considering the scale of change required for all parties involved in the securities and cash processing chain globally.

2. Process Enhancement and Stakeholder Readiness:

- **Enriching Processes:** ACSA recommends enriching existing processes and market functionalities ahead of the T+1 transition.
- **Stakeholder Inclusion:** Ensuring all ecosystem parties, including payment systems, are ready for the change by providing sufficient information for adequate testing is imperative.

3. Understanding Capital Requirements and Impacts on Strategies:

- **Capital Considerations:** A clear understanding of expected capital requirements is crucial to determine the benefits of freeing up capital for other uses.
- **Strategic Impacts:** Assessing the impacts of new standards and technologies on market practice and participant strategies is essential.

4. Global Connectivity and Offshore Funding:

- **Funding Dynamics:** Factoring in the funding of trades by offshore clients and their readiness for timing changes is paramount.
- **Market Construct for Dual Markets:** Considering the move of the NZ market to T+1, ACSA highlights the potential resource implications in managing both markets undergoing transitions.

5. Organisational Constraints:

- **Resource Implications:** Plan for potential resource challenges, especially if managing multiple markets undergoing T+1 transitions.

Conclusion and ACSA's Vision for a Seamless T+1 Transition

As Australia considers the next great step in market efficiency and risk reduction the vision for a seamless transition to T+1 settlement emerges.

The detailed benefits, challenges, and strategic considerations paints a comprehensive picture of the complexities involved in this transformative journey.

Emphasising collaboration, technological readiness, and strategic planning, ACSA's insights provide a roadmap for Australia's financial industry to navigate the intricacies of T+1 settlement and emerge resilient in the global financial landscape.



About the Australian Custodial Services Association (ACSA)

The Australian Custodial Services Association (ACSA) is the peak industry body representing members of Australia's custodial and investment administration sector. Our mission is to promote efficiency and international best practice for members, our clients and the market. ACSA works with peer associations, governments, regulators and other market participants on a pre-competitive basis to encourage standards, process consistency, market reform and operating efficiency. Established in 1994, ACSA members currently hold assets in excess of \$4.5 trillion in custody and under administration for Australian institutions (at 31 December 2024).

The key sectors supported by ACSA members include large superannuation funds and investment managers, as well as other domestic and international institutions. Custodians provide a range of institutional services to clients including traditional custody and safekeeping, investment administration, foreign exchange, securities lending, transfer agency, tax and financial reporting, investment analytics (risk, compliance and performance reporting), investment operations middle office outsourcing and ancillary banking services.

www.acsa.com.au

Important Note

ACSA works with peer associations, regulators and other market participants on a pre-competitive basis to encourage standards, promote consistency, market reform and operating efficiency. The views expressed in this paper are prepared by ACSA and should not be regarded as the views of any particular member of ACSA. The comments in this paper do not comprise financial, legal or taxation advice.



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