



Level 24, 44 Market Street,
Sydney NSW 2000
Tel: 612 8235 2530
acsa@fsc.org.au
ACN 072 659 619

The Implementation of T+2 in Australia and New Zealand and impact on custodians and their clients

This document explores the impact of the implementation of a Trade Date plus two business day settlement regime (T+2) on clients of Australian and New Zealand custodians.

Prepared by the Australian Custodial Services Association, the document provides clients with a guide to the impact a change in settlement date regime may have on them and answers some common questions relating to the implementation.

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This communication has been prepared by the Australian Custodial Services Association Custody Operations Working Group and is intended to provide some detail of the implementation of a Trade Date plus two business day settlement (T+2) regime in both Australia and New Zealand.

It is critical that clients of Australian and New Zealand custodians are prepared and ready to meet the T+2 settlement implementation in these markets.

1. What is T+2?

T+2 refers to the simultaneous settlement of securities and cash between buyer and seller following execution of a securities trade, on the second business day following that execution. Currently all executions are settled on the third business day following the execution (trade) date or T+3.

2. What securities are affected by T+2?

T+2 mostly applies to all listed Australian and New Zealand securities (equity/debt/hybrid/ETFs) traded on a recognized exchange (ASX & Chi-X for Australia, NZX for New Zealand) and/or settled through a recognized clearing system or depository (CHES for Australia, NZX Depository or NZClear for New Zealand).

Trades executed on the minor exchanges in Australia – National Stock Exchange of Australia (NSX), SIM Venture Securities Exchange Limited (SIM VSE) and the Sydney Stock Exchange (SSX - formerly the Asia Pacific Exchange Limited (APX)) that utilize CHES for settlement therefore will also switch to T+2.

Certificated securities listed on the SIM VSE (that were formerly listed on the Bendigo Stock Exchange) will remain on T+5 settlement.

It should also be noted that Australian fixed income (FI) securities which are traded over the counter (OTC) will continue to be settled on a date mutually agreed by buyer & seller, however if no specific date is agreed, the *default* settlement timeframe will change to T+2. Australian discount securities (DS) such as bank bills, promissory notes, certificates of deposit will generally continue to settle on Trade Date (T+0).

3. What are the expected benefits of a move to T+2?

According to the ASX, T+2 settlement is expected to deliver broad based benefits through:

- Reducing counterparty risk for individual investors, participants and the central counterparty, resulting in reduced systemic risk for the market as a whole;

- Reducing the regulatory capital required to be held by market participants to mitigate risk;
- Standardising regional and global settlement practices;
- Driving greater post-trade operational and process efficiency and associated cost savings;
- Align with critical markets such as the European markets.

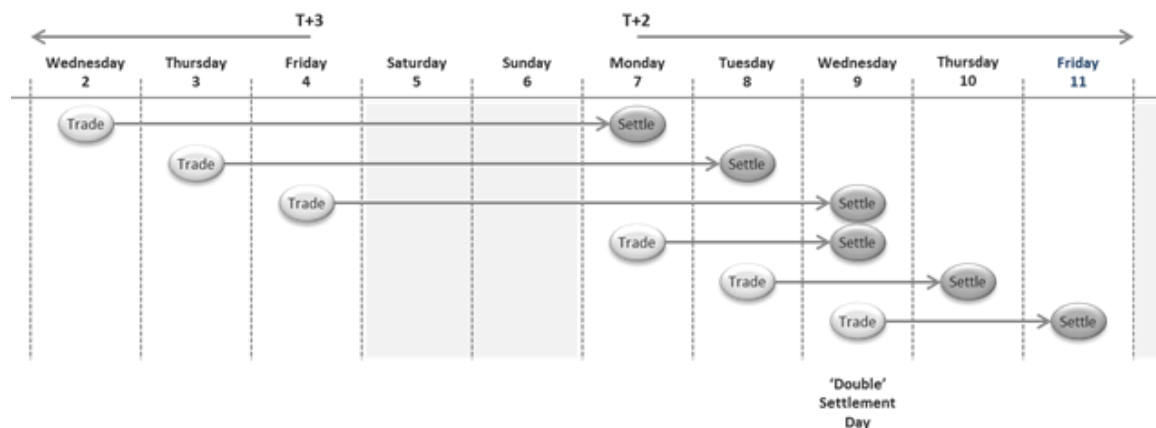
4. When does the new settlement regime commence?

T+2 settlement will commence for all trades executed on **Monday 7 March 2016**. Trades executed on that date will settle on Wednesday 9 March 2016.

5. What about trades executed just prior to implementation?

Trades executed on 2, 3 and 4 March will continue to settle on T+3 basis - on 7, 8 and 9 March 2016 respectively. This means that Wednesday 9 March will be a 'double' settlement date when two days' trades will settle on the same day – those executed on Friday 4 March 2016 will settle on a T+3 basis, while those executed on Monday 7 March will settle on a T+2 basis.

Please refer to the below diagram for reference:



6. Will the markets' cut-off times remain the same?

Trades executed on the New Zealand market will continue to be settled via two batch settlement batches (at 11.00 and 15.00 NZT) and this is likely to continue.

Trades executed in the Australian Fixed Income market settle throughout the settlement day with a market cutoff at 16.28 hours AEST. This will continue.

Trades executed on the ASX or Chi-X will settle via CHESSE at 11.30 AEST on settlement date.

This is a delay of one hour from the current 10.30 AEST cut-off to accommodate offshore investors.

7. Will my custodian's settlement cut-off time change?

Please speak with your local agent(s) to confirm cut off times if you haven't already been advised.

8. Will the ASX/NZX waive fail fees and close out (buy-in) rules for the implementation of T+2?

ASX has already confirmed it will not be waiving any fail fees or close outs that arise over the implementation period. Everything will continue as normal in this respect.

It should be noted that close outs will continue to be notified to participants after end of settlement batch on Settlement Date plus two business days (SD+2) however this will be T+4 rather than T+5 today.

The NZX has also confirmed that fail fines and buy-ins will continue to apply albeit on a shortened timetable given the reduction in settlement time.

Fails and buy-ins or close outs are not common in the AU debt market however late settlements may need to be adjusted for interest as they are today.

9. What happens if one market is not ready to go live?

The ASX has already indicated that if either the New Zealand market or the Australian fixed income market is not ready to go live on 7 March, the ASX will still proceed. Likewise the Australian debt market (via the Australian Financial Markets Association- AFMA) has confirmed it will go live even if the ASX and/or the NZX is not. At this point in time, all markets have announced their readiness to go live on 7 March 2016.

10. Could the implementation be delayed?

No market expects to delay implementation of T+2. However ASX has nominated Monday 21 March 2016 as an alternate go live day if absolutely necessary. Neither AFMA nor NZX has nominated an alternate official go-live date at this point.

11. What is the impact of T+2 on corporate actions or income events?

Currently under T+3 there are three business days making up the 'Ex to Record Date' period. Under T+2, this will reduce to two business days, with Record Date immediately following Ex-Date on the following business day. With a very high settlement rate enjoyed by both Australia and New Zealand, it is expected that this change will not have any significant increase in entitlement claims. The current instance of claims in both markets is infrequent.

Current scenario

Ex-date	Ex-Date +1	Ex-Date + 2	Ex-Date + 3 (Record Date)
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Post T + 2 scenario

Ex-date	Ex-date +1	Ex-date + 2 (Record Date)
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It should be noted however that under the ASX Listing Rules, income announcements (and other corporate action events) can be made to the market as late as two business days prior to the designated Ex-Date of the event.

With the reduction in Ex period to two business days, in some cases clients will only have five days (including the day after record date) to elect for dividend reinvestment plan entitlements. This is especially applicable for some Australian managed fund distributions.

12. Are there any changes to the market cutoff times for corporate actions or income events?

All cut-offs remain the same as today including the election of dividend reinvestment plan options on Record Date plus one business day for Australian income events.

NZX has advised it may consider an extension to Record Date plus one business day for NZ DRP events however this change if it proceeds, is not expected prior to implementation of T+2.

13. Will my funding and liquidity requirements change?

Due to the shortened settlement cycle clients will need to ensure availability of funds for settlement of obligations a day earlier than under the current regime. This may have an impact on client FX flows. In particular, funding requirements and processes across the migration period may require special attention.

14. Importantly as clients of Australian and or New Zealand custodians, what can we do to prepare for T+2?

The most important point is to remember that settlement instructions will need to be received in Australia and New Zealand a day earlier. This is especially important for clients residing in time zones that are significantly behind Australia and New Zealand – Europe, UK and US clients particularly.

Clients are advised to calculate the time taken from trade execution through to instructing of their local custodian(s) in order to assess whether changes are required.

If you have any concerns about T+2 and instruction timing it is critical that you immediately contact and work with your local custodian to rectify these.

Further market information on T+2 is available from the following websites:

NZX (for New Zealand settlements)

<https://www.nzx.com/regulation/T2-settlement>

ASX (for CHESSE eligible settlements)

<http://www.asx.com.au/services/t2.htm>

AFMA (for Australian debt settlements)

http://www.afma.com.au/media/2015_08_19_AFMA_T2.pdf