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10 July 2015

Mr Daniel Moran
Deputy General Counsel Corporate
Regulatory & Public Policy
ASX limited
20 Bridge Street
Sydney NSW 2000
Via email: Regulatorypolicy@asx.com.au

Dear Mr Moran,

**Consultation Paper – Implementing a T+2 Settlement Cycle for the Cash Market – Draft Rule
Amendments**

About ACSA

The Australian Custodial Services Association Limited (“ACSA”) is the peak industry body representing members of Australia’s custodial and investment administration sector.

Our mission is to contribute to innovation within Australia’s investment administration infrastructure, support the development of custody professionals, and to provide leadership in representing our members.

By maintaining leadership and serving as a hub of quality and influential information, the Association enables members to confidently navigate change and growth.

ACSA represents members holding securities in excess of \$1.85 trillion in custody and under administration, and who employ more than 3,000 staff.

Context

ACSA appreciates the opportunity to provide feedback on the proposed rule changes required to implement T+2. This submission is made on behalf of the ACSA Corporate Actions Working Group and consequently will focus on the aspect of a reduction in the ex-period for corporate actions in conjunction with the move to T+2.

ACSA’s overriding view is to promote adoption of efficient custodial and investment administration practices, noting that the bulk of shareholders (by value) in Australia’s leading companies are institutional and serviced by ACSA members. ACSA believes that the points raised in our submissions

promote procedural certainty and efficiency in the market. The additional streamlining facilitated by the proposals also serves to enhance general perceptions of the Australian market within the domestic and international institutional investment community.

If you would like to discuss any aspect of this submission, please contact myself or Narelle Rutter, Chair of ACSA Corporate Actions Working Group.

Yours sincerely

Sandra Powell
Director ACSA and Executive Sponsor
ACSA Corporate Actions Working Group

The Australian Custodial Services Association Limited (ACSA)

Consultation Paper – Implementing a T+2 Settlement Cycle for the Cash Market – Draft Rule Amendments

A reduction in the 'ex-period' for corporate actions from 3 days to 2 days

Response

To enable ACSA to be fully supportive of shortening the ex-to-record period from 3 days to 2 days in conjunction with the T+2 settlement cycle, we are proposing two amendments related to the corporate event life cycle. We also request that you consider two other concerns that impact custodian operations. These points are outlined below.

- **Decrease in the period between announcement and election**

Custodians continue to have concerns over the ever decreasing period of time between market announcement and market deadline for participation in electable dividend events (e.g. Dividend Reinvestment Plan - DRP).

The current minimum announcement time frame for listed ASX entities (based on listing rule timetables) is ex-date - 2 business days and the current mandated election deadline for reinvestment type events is record date + 1 business day.

This has over the recent past decreased from a 7 business day period (under the 5 day ex-record date period) to a 6 business day period for events which have elections on record date +1 and a 5 business day period for events which have elections on record date. Under the T+2 (2 day ex-record date period) regime these timeframes are compressed further to 5 business days for events which have elections on record date +1 and 4 business days for events which have elections on record date.

ACSAs' concern lies primarily in the ability for the corporate event information to disseminate through multiple layers of intermediaries to be received by the decision makers. In today's world, these multiple intermediaries and decision makers reside in many varying jurisdictions around the globe, with differing time zones resulting in the passing of a number of days prior to the information being received by the decision maker; analyzed and then returned via intermediaries to Custodians for action.

ACSAs' preferred solution in this regard continues to be; as has been articulated in the past; to mandate through a Listing Rule change a greater time window between the record date and the market deadline (e.g.: Market deadline +2) for participation in these events.

There are already examples in place of where issuers voluntarily extend the time window beyond record date +1 and we certainly do not have any negative feedback from the entities that process in this manner.

As per previous submissions ACSA again highlights the inefficiencies, particularly with the non-resident investor base, that exist with the current record date +1 deadline arrangements.

- **Consistency between treatment of event elections**

The current position where the election deadline date is not mandated for all listed securities and all types of elections poses a high degree of operational risk for custodians and their clients. Approximately 80% of all Dividend Elections having a registry deadline date of record date + 1, with the majority of the remainder falling on record date. This inconsistency occurs across different security types as well as within a single company dividend event.

For example dividend reinvestment plans for Exchange Traded Funds (ETFs) do not fall under the current listing rules of a record date +1 election regime. The election date for ETFs is set by the issuer with most selecting the record date.

Likewise where companies offer the ability to receive dividend proceeds in a currency other than Australian Dollars as well as the ability to reinvest the dividend proceeds into stock, the currency election takes place on the record date while the dividend reinvestment election date falls on record date +1.

Under the current T+3 regime these inconsistencies cause a level of risk for investors who have to manage two separate instruction deadline dates. This risk is compounded by the move to T+2 and corresponding reduction in the ex-record date period.

ACSA's proposal is to amend the Listing Rules to ensure they apply across all types of listed securities to provide consistency in the processing timetable.

- **Inappropriate imposed timings for elections**

In order to collate, tabulate and execute all their clients' instructions, custodians need to set a Custodian election deadline before that of the market cut-off. Therefore a 1st level client of a custodian needs to be in a position to instruct their custodian at some point prior to that declared cut-off and therefore similarly set their own cut-off before the custodian deadline. Where there are multiple levels of intermediaries between the custodian in Australia and the ultimate beneficial owner, sufficient time is required at each level to pass instructions to the next level. This may result in beneficial owners being required to provide instructions well ahead of the registry deadline and now potentially prior to completing 'cum' trading.

If the ex-to-record period is reduced to 2 days and the Registry election deadline remains tied to the record date +1, shareholders who trade up until the ex-date will always need to instruct before their entitlement position is settled and potentially even before completing trading inclusive of the entitlement.

ACSA's belief is that shareholders should have the opportunity to know what their entitled position is before they make their election. Similarly, custodians should be afforded the time to accurately carry out their clients' instructions. The current practice of Registry election deadline being 1 day post record date imposes significant risk on clients to instruct on their entitled position.

- **Protection of entitlements over electable events**

Custodians have witnessed an increase in failed transactions impacting entitlements and the resultant claim processes since the introduction of the three day ex period, and expect that this will continue with the introduction of T+2 and two day ex periods.

This extremely narrow window rules out overseas shareholders having the opportunity to be informed about failing trades and recalculate their elections or for the custodian to arrange protection for a reinvestment election. Seeking protection can be extremely difficult to successfully navigate for one fail, for one client on a single dividend. However when the scenario is extrapolated to include a number of fails, many underlying clients and then multiple dividends that have the same record date, it is clearly a challenging and totally avoidable undertaking.

With the increased volume of fail activity effecting entitlements, the ability for clients (particularly international clients) to have their full entitlement participate in reinvestment elections is reduced.

In closing ACSA request the ASX consider our views in relation to:

- The decreasing period between announcement and election of corporate events;
- Provision of consistency between the treatment of event elections;
- Imposition of inappropriate timings for elections; and
- Protection of entitlements over electable events

ACSA believe that by acting on these concerns and mandating a greater window between the record date and market deadline for participation in corporate events, the market will operate in a more orderly and efficient manner; by providing clarity of dividend entitlements to clients, and resolve the issues currently creating uncertainty, inefficiency and an increased level of operational risk under the current regime.