

# NZX Clearing

Operational consultation on afternoon settlement batch time

January 2021



NZX Clearing is considering moving its afternoon settlement batch from 3pm to 3.30pm in support of its cash market Clearing Participants completing shunts between Australia and New Zealand following the CHESSE settlement batch.

This is an operational consultation with you on the proposed change. Please share this information internally as you think appropriate.

## 1. What are we asking from you?

We are asking you to provide us with written feedback on the impact on a proposed move of the afternoon settlement batch from 3pm to 3.30pm.

We want to understand from you:

- Any operational or risk impacts you foresee from the proposed change, both on the settlement batch times and the other settlement activities that flow from the settlement batches (see question 3 and 4 for more information on these activities);
- Your preferred time for the afternoon settlement and fails batches (i.e. current or proposed);
- Any feedback on the timing, process, or communication required should the decision be made to implement a change in settlement batch time (see question 7 for more information on the process and timing); and
- Anything additional you would like us to take into consideration.

You can provide us with your feedback by email to [policy@nzx.com](mailto:policy@nzx.com). Feedback should be provided by close of business on Wednesday, 3 February 2021.

## 2. What is the background to the change?

NZX Clearing currently operates two core settlement batches per day – one morning (11am) and one afternoon (3pm).

The design of the settlement batches in New Zealand is, in part, set up to support stock settlement for NZX and ASX dual traded stocks.

- The morning (11am) settlement batch is completed in time to allow Clearing Participants to shunt stock from New Zealand to Australia, for Australian settlement.
- The afternoon (3pm) settlement batch starts post the completion of Australian settlement, so stock can be shunted from Australia to New Zealand for settlement here.

In 2016, when migrating to a T+2 settlement cycle, ASX also chose to move its CHESSE clearing process back by one hour (from 10:30am to 11:30am). This constrained the post-CHESSE settlement shunt window from 90 to 30 minutes.

Operating the afternoon settlement batch at 3pm is also designed to:

- Allow sufficient time to run a settlement batch, fails batch and margin batch, in sequence.
- Allow Participants sufficient time to move stock from NZX to NZClear, before the RBNZ closes NZClear at 4.45pm.

- Allow the clearing house sufficient time to complete EOD processes and make EOD payments to Participants once the margin batch and any margin calls are completed, and before the close of the Payments New Zealand high value clearing system at 4.45pm.

We have received feedback from some Clearing Participants and their clients that the Australian settlement batch is now taking significantly longer than historically and/or Australian broker/custodian post-trade operations are taking longer to finalise post settlement. As a result, the New Zealand settlement batch time of 3pm is not consistently achieving part of its purpose – that is, there is not sufficient time for Australian broker/custodians post the end of the CHESSE settlement to shunt stock to New Zealand for the 3pm settlement batch.

We have previously discussed the afternoon settlement batch time with the NZX Clearing Participant User Group. The outcome of this discussion was that ad-hoc movements of the 3pm settlement batch or additional afternoon settlement batches were preferred as an appropriate way to manage any delay to the Australian settlement batch ending and flow on impact on NZX Clearing’s settlement (i.e. it was the group’s preference to manage by exception rather than the rule).

We have now received further feedback from a Participant that the delays in Australia are occurring on such a regular basis that ad-hoc changes are not sufficient.

We want all Clearing Participants’ feedback on whether to move the afternoon settlement batch to 3.30pm.

### 3. How would the change impact the timeline of the settlement day?

The proposed change is to move the afternoon settlement batch from 3.00pm to 3.30pm. This would impact NZX Clearing’s afternoon settlement operations as per the timetable below.

Settlement function	Current	Proposed
Core afternoon settlement batch starts	3.00pm	3.30pm
Core afternoon settlement batch ends	3.15pm	3.45pm
Afternoon margin call batch	3.15pm	3.45pm
Afternoon intra-day margin calls made	approximately 3.30pm	approximately 4.00pm
Fails afternoon settlement starts	3.30pm	4.00pm
Fails afternoon settlement end	3.40pm	4.10pm
Additional afternoon margin call batch	3.40pm	4.10pm
Intra-day margin calls need to be met	3.45pm	4.10pm
Loan repayment completed and cash moved for cash out process	3.45pm	4.10pm
Cash out process begins	3.45pm	4.10pm
Cash out process must be completed by	4.45pm	

Settlement function	Current	Proposed
NZClear / NZX interface closes (NZClear EOD)		4.45pm

#### 4. How would the change impact Participants' operations?

The key impacts on Participants and the clearing house would be:

- No ability to move the settlement batch any later than 3.30pm or run additional settlement batches - From time to time, in incidents or on large settlement days, the afternoon settlement batch has been moved later or additional afternoon settlement batches have been put in place. This has been at the instigation of the clearing house or following requests from Participants. With any permanent move of the settlement batch time to 3.30pm, there will be no time to allow any later or additional afternoon settlement batches.
- A shorter time frame for Participants to meet afternoon intra-day margin calls (reduced to ten minutes from fifteen minutes) - Participants will need to monitor margin calls and respond to these immediately, especially should a further cash payment be required before the collateral can be blocked.
- A shorter period for Participants to complete afternoon OTCs - Participants will not be able to request delays to NZX Clearing starting cash out, to allow time to repay loans or complete any other OTC transactions. The afternoon settlement batch will finish approximately 3.45pm and cash out will begin at 4.10pm. Any transactions and movements of money will need to be completed strictly by 4.10pm to allow cash out to be completed on time.
- A shorter period from the end of all settlement batches to NZClear close - Participants will have less time to complete movements to NZClear from NZX Clearing's depository. The time from the end of the fails batch to the close of NZClear will be reduced to 35 minutes compared to the current 65 minutes. Participants will need to consider in their consultation response whether this is sufficient time for completion of movements for settlement of large trading days.
- Increased system processing in the last hour of the trading day – If Clearing Participants are concurrently performing bulk uplifts, client outward transfers or OTCs following the end of the settlement batch from 3.45pm this processing may occur at the same time as end of day trading increases before the close of market. Trading generally increases from 4.00pm. On large trading days, the concurrent processing of bulk uplifts, client outward transfers, OTCs and cleared trade messages (MT518s), may result in slower processing of these messages. Participants may wish to discuss the impact of this with their trading desks, as part of their consultation feedback.

#### 5. Why is 3.30pm the proposed time?

3.30pm has been chosen as the proposed time for the afternoon settlement batch, because:

- The change needs to be sufficient to provide Participants additional time to shunt stock from Australia to New Zealand.

- The NZClear and ESAS deadlines constrain the ability to move the settlement batch beyond 3.30pm and still allow enough time for Participants to move stock to NZClear and the clearing house to complete cash out. Any change to these deadlines would require changes by NZClear and Payments New Zealand.
- NZX Clearing procedures and operations are designed for the benefit of resilience and redundancy. We need to be able to deliver consistent operations that allow for contingency where extraneous situations occur. An example of this is large trading and settlement days where NZX Clearing and Participant operations workload is significant and is constrained by RBNZ deadlines as per bullet 2 (above). We consider shortening the time frame any further would create the unintended risk of operational difficulties for Participants and the clearing house, creating an unacceptable risk profile.

## 6. What are the alternatives?

The alternative is to have the settlement batch time remain as 3pm. In this scenario there is limited ability for NZX Clearing to solve for the issue of Participants being unable to shunt stock from Australia to New Zealand for 3pm. Alternatives would include:

- Participants borrowing securities for the 3pm settlement batch and then repaying loans once the stock has shunted
- Participants discussing with the registries or ASX about the settlement time in Australia; the speed of Australian settlement; or the speed of the shunting process
- Participants discussing with their broker/custodian counterparts in Australia methods for faster bilateral operations to support their mutual clients

## 7. What are the next steps following the close of the consultation?

At the close of the consultation period, we will collate all feedback and make a decision on the proposed move.

This decision will then be communicated to cash market Clearing Participants (and they are welcome to communicate this out to any clients they consider will be interested in the outcome).

Should the decision be to move the settlement batch to 3.30pm, we will need to:

- Change the Clearing and Settlement Procedures to confirm this time change (approximately two week process)
- Provide information to the Joint Regulators
- Provide notification of the change to cash market Clearing Participants (we propose two weeks' notice)
- Make a system change (we propose to make this available in the test system for one week)
- Update external documentation

It is expected that there will be approximately one month between the notification of the decision, and go live of any new batch time, which at earliest will be Q2 2021. This timeframe will be confirmed and clarified once the decision is made.