



# NZX Clearing

Afternoon settlement batch time – Consultation response

March 2021

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## 1. Introduction

In January 2021, NZX Clearing consulted with cash market Clearing Participants on the proposed move of the afternoon settlement batch from 3.00 p.m. to 3.30 p.m. NZST (**Proposal**). The consultation closed on 19 February 2021.

This paper summarises:

- [NZX Clearing's consideration of submissions \(section 2\)](#)
- [Next steps \(section 3\)](#)

NZX Clearing received written submissions from six of the eight cash market Clearing Participants; one Depository Participant; and one market participant. The feedback received was supportive of the Proposal, with some minor issues noted.

On this basis, NZX Clearing has determined to continue to progress the Proposal.

### **What is the background to the proposed change?**

The Proposal was designed to support the shunting of stock from Australia for settlement, following feedback from Participants of delays in Australia.

For the cash market, NZX Clearing currently operates two settlement batches daily – at 11.00 a.m. and 3.00 p.m.

The use of multiple settlement batches in New Zealand is, in part, designed to support the securities settlement of NZX and ASX dual traded stocks:

- The morning (11.00 a.m.) settlement batch is completed in time to allow Clearing Participants to shunt securities from New Zealand to Australia, for Australian settlement.
- The afternoon (3.00 p.m.) settlement batch starts post the completion of Australian settlement, so securities can be shunted from Australia to New Zealand for settlement here.

In 2016, ASX elected to delay its CHES settlement batch by one hour, moving it from 10.30 a.m. to 11.30 a.m. As a result, the time frame following CHES settlement in which securities can be shunted to New Zealand for the afternoon settlement batch was reduced from 90 minutes to 30 minutes.

NZX Clearing has received feedback that the Australian CHES settlement batch now regularly completes later than historically, and/or Australian broker/custodian post trade operations are taking longer to finalise post-settlement.

As a result of the delays to the available shunting window, the New Zealand settlement batch structure is not consistently achieving part of its purpose – to support securities shunting from Australia in time for New Zealand settlement.

The Proposal provides for more time between the settlement batch in Australia and the afternoon settlement batch in New Zealand, to shunt securities for settlement. We anticipate this will reduce Participants' reliance on borrowing stocks to avoid failing to settle trades, as the additional time should ensure that a higher proportion of shunts are completed prior to afternoon settlement.

The Proposal will result in the following changes to the NZX Clearing afternoon operations timetable:

Settlement Function	Current	Proposed
Additional afternoon margin batch	-	3.00 p.m.
Core afternoon settlement batch starts	3.00 p.m.	3.30 p.m.
Core afternoon settlement batch ends	3.15 p.m.	3.45 p.m.
Afternoon margin call batch	3.15 p.m.	3.45 p.m.
Afternoon intra-day margin calls made	Approximately 3.30 p.m.	Approximately 4.00 p.m.
Fails afternoon settlement starts	3.30 p.m.	4.00 p.m.
Fails afternoon settlement end	3.40 p.m.	4.10 p.m.
Additional afternoon margin call batch	3.40 p.m.	-
Intra-day margin calls need to be met	3.45 p.m.	4.10 p.m.
All OTCs completed (including any loan repayments) and cash moved for cash out process	3.45 p.m.	4.10 p.m.
Cash out process begins	4.00 p.m.	4.10 p.m.
Cash out process must be completed		4.45 p.m.
NZClear/NZX interface closes (NZClear EOD)		4.45 p.m.

## 2. NZX Clearing's consideration of submissions

NZX Clearing sought views on four points in the consultation paper relating to the Proposal:

1. Any operational or risk impacts Participants foresaw from the proposed change, both on the settlement batch times and other settlement activities flowing from the settlement batches;
2. Participants' preferred time for the afternoon settlement and fails batches;
3. Feedback on the timing, process, or communication required should the decision be made to implement a change in settlement batch time; and
4. Additional matters that Participants would like taken into consideration.

Seven of the eight (88%) submitters confirmed they were supportive or considered the Proposal as reasonable.

Of the eight submissions received:

- Three submitters foresaw no material impacts arising from the Proposal
- Two submitters did not identify any issues
- Two submitters did raise issues, but these were categorised as non-material
- One submitter preferred the 3pm batch time due to internal operational changes that would be required to its systems
- No submitters raised any issues substantial enough to outweigh the benefits of the Proposal

Six of the eight submissions provided general feedback on the Proposal, while the other two submissions specifically responded to the four points raised by NZX Clearing. NZX Clearing has interpreted the general feedback as the submitters having no concerns in relation to the matters outlined under each of the four points.

NZX Clearing's consideration of the matters raised by submitters is summarised below.

### 1. Foreseeable operational or risk impacts

NZX Clearing considers that no significant operational or risk impacts were identified by submitters in relation to the Proposal. While operational matters were noted in the responses NZX Clearing does not consider that these are sufficiently significant to outweigh the benefits of implementing the Proposal, noting the proposed approach to implementation described later in this paper. NZX Clearing's analysis of these matters is set out below.

*Matters raised and NZX Clearing response:*

1. Two submitters noted that moving the afternoon settlement batch to 3.30 p.m. would reduce the window where securities can be moved from NZX Clearing's Depository to NZClear by 30 minutes (as outlined in the consultation document). One submitter noted that this could become a concern on days of substantial volumes, and might be compounded by the lack of an automated system for transfers to NZClear.
  - NZX Clearing response: there will continue to be an hour in which Participants can move securities received in the afternoon batch. Further, NZX has an established market infrastructures forum, at which it discusses large settlement days with NZClear and the Registries. It is within these forums that extensions are generally discussed with relation to the NZClear settlement windows, e.g. index rebalances.
2. One submitter noted that the movement of the afternoon settlement batch, and subsequent delay to cash out would delay its end of day reconciliation, but that this was not a material concern.
  - NZX Clearing response: NZX Clearing has verbally notified NZClear of the proposal and will provide formal notification of the change as a part of the implementation process. NZX Clearing is comfortable extending its NZClear interface window. Should Participants seek a permanent change to this window, we encourage Participants to engage with NZClear directly to provide an indication to NZClear of the customer demand for this change. Alternatively, where Participants need additional time to move securities to NZClear on specific days, they can make a request to NZX Clearing and NZClear on the day.
3. Two submitters noted NZX Clearing will have no ability to delay the afternoon settlement batch, nor to run additional settlement batches after the completion of the afternoon settlement batch.
  - NZX Clearing response: Historically, the primary reason for delays to, or additional, afternoon settlement batches have been market incidents. NZX Clearing will adjust the timetable in its major incident management plan, to ensure afternoon settlement changes are managed appropriately, should there be incidents at NZX or with other market infrastructures.

Additionally, NZX Clearing identified the following impacts on the operational day in the consultation document. No concerns in relation to these matters were raised by submitters in their responses.

- Participants will have a smaller window to meet afternoon intra-day margin calls (reduced to 10 minutes from 15 minutes).
- The period in which Participants can complete afternoon OTCs will decrease, as the afternoon settlement batch will finish at approximately 3.45 p.m. and cash out will begin

at 4.10 p.m. All transactions and movements of money must be strictly completed by 4.10 p.m., to allow cash out to be completed on time.

- Participants performing bulk uplifts, COTs or OTCs following the end of the afternoon settlement batch may find these messages process more slowly, due to end of day increases in trading. We encourage Participants to consider their use of the clearing systems, in balance with the dependencies of their system for the performance of real-time activities.

## 2. Participant's preferred time for afternoon settlement

Of the eight submissions:

- Seven supported or did not oppose moving the afternoon settlement batch to 3.30 p.m.
- One submitter preferred the current time of 3.00 p.m. This preference was due to internal process efficiency rather than material issues with implementation of the Proposal.

*NZX Clearing response:*

On the basis of this feedback, NZX Clearing is comfortable that the Proposal is the preferred option for the market.

## 3. Implementation timing, process, and communication

There were no material concerns raised by respondents with the implementation process.

- Five submitters raised no concerns with the implementation process as outlined in the consultation document.
- One submitter sought implementation as soon as possible.
- One submitter confirmed that a two week notice period would be reasonable for implementation of the change.
- One submitter noted that any change to the batch time should be balanced against other upcoming system changes, such as the upcoming Trading System Upgrade project (**TSU**).

*NZX Clearing response:*

As no feedback was provided against the implementation process originally proposed, NZX Clearing will proceed with implementation in accordance with the general timing outlined in the consultation paper. A timetable outlining the specific dates is included in [Section 3, Next Steps](#). NZX Clearing has considered the TSU testing timeframes in designing the timetable.

#### 4. Other matters Participants would like taken into consideration

There were five additional matters raised by submitters, as outlined below. Two of the additional matters raised were positive. The additional matters raised are not gating matters which must occur to take the Proposal forward.

##### *Matters raised and NZX Clearing response:*

1. One submitter noted that the Proposal would allow more time for shunting from Australia, which would reduce settlement risk.
  - NZX Clearing response: Comment supports the Proposal.
2. One submitter noted that the Proposal would reduce their reliance on borrowing to ensure settlement, which would reduce their fees, and increase efficiency.
  - NZX Clearing response: Comment supports the Proposal.
3. One submitter queried whether:
  - a. the afternoon fails batch could be run at 3.45 p.m.
  - b. an additional settlement batch could be run at approximately 1.30 p.m
  - c. whether NZX Clearing had engaged with the ASX about the possibility of moving their settlement time.
  - NZX Clearing response: The afternoon fails batch cannot operate at 3.45 p.m. as this is the time of the afternoon margin batch, and these batches cannot run simultaneously. NZX Clearing cannot delay the margin batch to allow an earlier fails batch, as this would provide no time for Participants to meet afternoon margin calls.
  - An additional settlement batch is outside the scope of this consultation and further consultation would be required to adjust the settlement day further. The current design of the settlement day incentivises Participants to meet settlement in the morning. This benefits market Participants by providing them access to their settled securities early in the market day, to allow other settlement functions to occur across the business day (including Australian settlement). Current data indicates the majority of settlement regularly completes in the morning batch. Additional batches can be provided on request for specific scenarios, on an ad hoc basis, however, NZX Clearing's preference is that Participants aim to meet the morning settlement batch.
  - NZX Clearing considers it would be more appropriate for Participants to engage with ASX if they desire a change to the ASX settlement time, due to the customer relationship between Participants and the ASX. As there is no commercial relationship between NZX and ASX, there is no customer leverage for NZX to influence the ASX timetable.



### 3. Next steps

Based upon the feedback provided by submitters, NZX Clearing is satisfied that implementation of the Proposal will benefit the market – reducing the reliance on borrowing securities to complete settlement, and limiting the number of failed settlements when shunts cannot be completed in time.

We are also satisfied that Participants have considered the implementation and not identified any significant operational or risk impacts. As such, NZX Clearing has decided to move ahead with the Proposal.

As detailed on page 4, implementation of the Proposal will result in changes to the timing of the:

- Afternoon settlement batch;
- Afternoon fails batch;
- Afternoon margin calls; and
- The cash out process.

The timetable for implementation of the Proposal is below. Participants should note that this is an indicative timetable, and that the above dates are subject to change.

Action	Date
Release of consultation document confirming upcoming change	Monday 29 March
NZX and Participants complete internal change preparations	Monday 29 March to Friday 9 April
Testing opportunity for Participants of timetable change in BaNCS external test environment	Monday 12 April to Friday 16 April
Changes to the Clearing and Settlement Procedures published, effective date 3 May	Friday 23 April
Confirm afternoon settlement batch timetable and go live date to Clearing Participants	Friday 23 April
Go live	Monday 3 May

All communication on the implementation, including any date changes, will be provided to Clearing Participants' Responsible Persons.

Any questions on the Proposal and implementation can be emailed to [clearing@nzx.com](mailto:clearing@nzx.com).