Dear Sir / Madam,

UBS would like to thank the Australian Securities Exchange for exploring a T+2 settlement convention in Cash Equities in the Australian market, and welcomes the opportunity to comment on the ASX Consultation Paper *Shortening the Settlement Cycle in Australia: Transitioning to T+2 for Cash Equities*.

UBS is a vocal supporter of a move to T+2 settlement for a number of reasons. Listed in order of importance, these are:

1. Risk reduction for all stakeholders;
2. Cost reduction for a broad range of stakeholders;
3. The Australian market remaining at a standard deemed global best practice; and
4. Improved processing efficiencies that will be needed

UBS is broadly supportive of the submissions made by both the Australian Financial Markets Association and the Stockbrokers Association of Australia, and lodge this submission to express that support.

The specific questions outlined in the Consultation Paper are addressed below.

Q1 Do you agree with the expected benefits from the introduction of a T+2 settlement cycle for cash equities? If so, please outline the key benefits to your organisation.

Yes, UBS is strongly in favour of a move to T+2 settlement. As noted above, there are multiple benefits by adopting this change.

Q2 What level of reductions in cash market margin and liquid capital requirements do you expect for your organisation from the introduction of a T+2 settlement cycle? Please indicate if you wish this information to remain confidential to ASX and the regulators, RBA and ASIC.

We would expect a reduction of 20-33% to both cash market margin and liquid capital requirements. Neither reduction is expected to have a major economic impact.

Cost reduction could be more material if ASX can reduce their capital, and associated clearing fees reduced in line with that capital reduction. This would benefit a broad range of stakeholders.

Q3 Do you expect the costs associated with the implementation of T+2 to be relatively small, moderate or significant for your organisation? Can you provide a cost range for your implementation of T+2?

The cost of changing to T+2 settlement would be immaterial for UBS.

Q4 Do you consider that the potential net benefits expected from the introduction of a T+2 settlement cycle for cash equities warrants its introduction in the near term? If so, do you consider that:

a. an implementation date in Q1 2016 should be targeted?

UBS believes this can be done sooner and could be achieved in 2014. However, there is considerable merit in moving in line with the European Union (EU) on 1 January 2015.

There appears to be a difference in the market between institutional and retail participants, the former wanting to move quickly, the latter with more caution. Perhaps a suitable compromise of mid-2015 would be acceptable and achievable by all.

b. an earlier implementation date in 2015 is feasible for all industry participants and should be considered? If so, what implementation timing do you think should be targeted?

As noted above.

c. sequencing the transition to a T+2 settlement cycle with other markets is important, noting that EU member states will be required to operate a T+2 settlement cycle from January 2015?

There is no explicate interdependency between the EU and Australia. However, there will be publicity and awareness around the EU change that could make it easier for Australia to adopt T+2 settlement at the same time.

Q5 To what extent do you currently utilise an automated centralised trade matching system? Please indicate which system you use.

For matching, UBS predominantly uses Omgeo, and to a lesser extent FIX, through other vendors (Traiana and Una Vista). UBS also uses IOS ETCs for domestic Australian clients. Approximately 85% of flow will be matched electronically through one of these systems.

Q6 What percentage of trades are verified manually by your organisation? If you use manual verification processes, what is the main reason for doing so?

85% of UBS' confirmations are electronically matched.

Q7 What is the percentage of trades where affirmation is completed on T+0?

Assuming 9am AEST on T+1 to represent End of Day for all UBS' global clients, 95-98% are matched by this time.

Q9 In what timeframe could your organisation be reasonably expected to achieve an SDA rate of over 90%?

UBS is well over 90% already (SDA considered to be the close of the US day)

Q10 What is the expected investment required for your organisation to implement a T+2 settlement cycle? Do you agree the changes required to implement a T+2 settlement cycle are largely configuration and behavioural changes rather than wholesale system changes?

Expected investment spend will be close to zero. Changes are largely configurational and behavioural in nature. Such changes happen periodically on a global basis and there have been no issues to date.

Q11 Please indicate the most significant reason for a delay in the release of settlement instructions to the market?

Confirmation / booking delays are the main reason to delay the release of settlement instructions.

Q12 What are the key reasons for delaying the matching of settlement instructions until late in the afternoon of T+2 or in the morning of T+3?

UBS previously sent messages on T+1, but this was out of step with the market and so reverted to T+2 settlement. UBS can easily revert to T+1 settlement.

Q13 Are investor location and time zone differences the main driver for delayed settlement instruction matching? Please indicate the main jurisdictions where delays are common.

No. It is the quality of the client's processes / systems and confirmation method that determines settlement effectiveness, not the location of the client.

Q14 Should the ASX require continued publication of settlement instructions so that they cannot be removed after initial publication and potentially delay the opportunity to match settlement instructions?

No. Each participant requires the ability to manage their exposures to market as it sees fit. UBS does not believe ASX would have adequate visibility around which messages should be legitimately pulled back.

Q15 Should the ASX consider enriching message information to facilitate more timely settlement instruction matching?

No. The messaging is fine as things stand. UBS would be strongly adverse to any changes.

Q16 Do you think that the introduction of a T+2 settlement cycle is feasible with the existing 10.30am settlement batch cut-off? Please state reasons for your view. If you act on behalf of foreign investors, please indicate the percentage of current trading volumes executed by foreign clients in Asian, US and European time zones.

UBS believes a cut-off time after 10.30am would be required. With a move to T+2, as well as the hubbing of many Operational staff to third party vendors in Asia, it is important those staff have time on the morning of T+2 to maximise settlement rates. Approximately 35% of UBS' Cash Equities business is from the international client base.

Q17 What are the main internal processes and procedural changes that your organisation would need to introduce to ensure T+2 and batch cut-off settlement deadlines are met? If you do not think moving to a T+2 settlement cycle is feasible with the existing 10.30am settlement batch cut-off, do you think delaying settlement batch cut-off to 11.30am or 12.00pm would provide sufficient additional time to assist in facilitating timely settlement? If so, would the benefits exceed the cost of the flow-on impacts (for example, the likely need to change payment provider deeds and delaying the ASX settlement authorisation notification, payment provider authorisation, and registration cut-off times, together with delaying participant back office processing related to post settlement activity)?

A delay until noon AEST would provide sufficient time for all parties. 11.30am might still be too early for Asian time-zones, especially during the Australian summer.

Q18 What are the main internal processes and procedural changes that your organisation would need to introduce to ensure later batch cut-off settlement can be supported, including internal funding arrangements and operational resource availability?

Changes to procedures and processes will be easily addressed, especially with a lead time of many months or years.

Q19 Would extending the CHESS system start or end of day times assist with achieving timely settlement in a T+2 settlement cycle? For example, would it assist with off-shore processing?

Settlement occurs during standard business hours due to the reliance on counterparties. Unless counterparties start working outside of 6am-8pm, then we would see limited benefit.

Q20 What are the key drivers for settlement failure? Is the lack of access to stock borrowing arrangements or availability of stock a significant driver for failed delivery?

UBS believes Australia has one of the most efficient settlement markets in the world, in large part due to the deep liquidity of the Stock Borrow market. This would be materially unchanged by a move to T+2 settlement.

Q21 Please indicate whether you believe the continuation of the current regime and the automatic close-out requirement will provide the appropriate incentives for timely settlement in aT+2 environment.

UBS would suggest no change to existing arrangements.

Q22 Should the current close-out regime be changed to settlement date +1 (T+4) instead of settlement date +2 (T+5) with the introduction of a shortened settlement cycle?

UBS would suggest no change to existing arrangements.

Q23 Do you think further consideration should be given to using CHESS's existing RTGS functionality to manage late settlements? What would your organisation need to do to use CHESS's existing RTGS functionality? What would your payment provider need to do to use CHESS's existing RTGS functionality?

UBS would prefer all settlement activity to be done via Chess DvP settlement, and will likely stay with the current methodology.

Q24 Do you think further consideration should be given to running an additional settlement batch to manage late settlements? How do you expect an additional settlement batch would impact your organisation, including the potential cost impact.

UBS would be strongly against running an additional settlement batch. This would add significant complexity and meaningful IT spend to the T+2 proposal. If an additional batch was proposed, UBS would be forced to reconsider its current stance on T+2 settlement.

Q25 If running an additional settlement batch introduces material additional costs or regulatory considerations for industry stakeholders or the ASX, would this change your response?

As noted above.

Q26 Do you have other suggestions for addressing late settlements? Are you able to quantify whether late settlements are a significant issue for you? In your view, is the current mechanism – moving securities free-of-payment through CHESS while moving cash separately – sufficient?

Late settlements are not an issue for UBS. UBS attempts to avoid late, as well as free of payment, settlements.

Q27 What role do you think that investor education can play in minimising the potential for increased settlement failure following the introduction of a T+2 settlement cycle? Do you think there is merit in ASX working with the industry to undertake investor education in relation to the transition to T+2?

Limited education would be required. Certainly participants will need to disseminate information to their internal and external stakeholders. The publicity around the EU changes may be helpful in raising awareness of the change. This is another good reason for Australia to target 1 January 2015.

Q28 Are there particular corporate action events for which the adoption of a T+2 ex period creates significant difficulties?

While not a corporate action event per se, it would be preferable for the New Zealand Exchange to alter their settlement convention to T+2 in sync with ASX. With many of New Zealand's top stocks dual listed in Australia, it would be cumbersome to manage settlements. However, this is a relatively small portion of the Australian market and Australia should proceed with T+2 settlement, regardless of the position taken by the New Zealand Exchange.

Q29 Do you think that a T+1 settlement cycle is achievable to facilitate trading in special markets?

UBS believes a move to T+1 is a bridge too far at this point. When Real Time intraday cash movements are part of RBA's plans, this can be revisited.

Q30 Do you support the same approach to the timing of trade netting being taken in a T+2 settlement cycle (that is, settlement date minus two business days (T+0) to allow the netted settlement obligation positions to be available to all participants one day prior to settlement)?

Yes. This gives greater clarity to cash liquidity requirements the day before settlement, rather than on the day of settlement

Q31 Will there be significant impacts for your organisation if trade netting was to occur on T+0 if a T+2 settlement cycle is introduced?

Q32 Do you expect a significant impact to securities lending activity due to the introduction of a shortened settlement cycle? If so, please outline the expected impact?

UBS does not foresee any significant impact on securities lending activity.

Q33 Are there any significant additional client or business risks that have not been identified in this paper?

No. The Consultation Paper captures the major client and business risks.

In conclusion, UBS believes a change to the T+2 settlement convention is in Australia's best interest. It will reduce risks and associated costs, while improving efficiency and keeping Australia in line with global best practice.

Yours sincerely,

Conor Foley
Director, UBS Securities Australia Ltd