

18 April 2016

PRODUCTIVITY COMMISSION:
SUPERANNUATION COMPETITIVENESS AND EFFICIENCY
- SUBMISSION -

With over 40 years of experience, the Depository Trust & Clearing Corporation (www.dtcc.com) provides post-trade market infrastructure for the global financial services industry. Through its subsidiaries, DTCC automates, centralises, and standardises the post-trade processing of financial transactions, mitigating risk, increasing transparency and driving efficiency for thousands of broker/dealers, custodian banks and asset managers worldwide. User owned and industry governed, we seek to simplify the complexities of clearing, settlement, asset servicing, data management and information services across asset classes, bringing increased security and soundness to financial markets. DTCC's subsidiary Omgeo Pty Ltd has been active in the Australian market since 2001, supporting the automation of cash equities, fixed income, exchange-traded derivatives, repos and equity swaps post-trade processing. By streamlining post-trade operations such as confirmation, allocation, Standing Settlement Instructions (SSI) enrichment and settlement notification, firms are able to accelerate the clearing and settlement of trades – increasing operational efficiency within Australia's superannuation system and, for the end-investor, serving to increase after-fee returns.

DTCC recognises the critical nature of Australia's superannuation system in helping Australia meet the economic and financial challenges of an ageing population and in helping Australians meet their individual retirement needs through delivery of good investment outcomes. We support the inclusion of operational efficiency as a key element of the Productivity Commission's review of the system, as we believe this is an area where there are opportunities for on-going improvement and innovation which, ultimately, serve the interests of investors and retirees in the form of lower costs and lower risk in the superannuation system and, ultimately, higher returns for the community.

To this extent, we also believe there is benefit in including 'process' and 'input' indicators (Page 11 of the Commission's Issues Paper) as part of the mix of measures used to assess the overall efficiency of the superannuation system. In particular, the extent to which the underlying financial system features and benefits from automation and straight-through processing (STP), harmonisation of standards and best practice, and innovation generally is likely to have a direct impact on rates of return.

Automation and STP –

In medium to large markets, automation of middle office processing of securities between brokers, custodian banks, outsourcers and asset managers, for example, enables improved scalability and higher efficiency. This is particularly the case where labour costs are relatively high and/or critical information is being exchanged between counterparties across diverse time zones. Related benefits include STP, which lowers operational and counterparty risk and enables higher returns to the end investor. In the Australian market, levels of middle office automation vary between asset classes. For example, middle office processing of fixed income and listed derivatives trading is generally less automated than it is for equities, suggesting opportunities for efficiency gains.

While measuring automation can be subjective, benchmarking studies have been successfully undertaken (e.g. a whitepaper entitled 'The Asia Pacific Post Trade 100: Post-trade Practices in Asia' in which DTCC commissioned InsightAsia Research Group to compare trade-matching practices by country, asset class and segment across Asia Pacific). More quantitative, but less direct, indicators of automation and STP include measuring Same Day Affirmation (SDA) rates. SDA refers to the complete verification of essential trade details between the investment manager and the broker/dealer on T+0, and a higher rate implies both a greater level of automation as well as more efficient related workflows.

Harmonisation of Standards and Best Practice –

In addition to differences between asset classes, operational inefficiencies can exist in the market in the form of fragmentation between cross-border and domestic trade operations. For firms trading both domestically and offshore, there are efficiency and risk management benefits to be gained from using common middle office standards, practices and technologies to facilitate both types of trading. Over time, adoption of common global standards and practices can facilitate not only greater firm-level efficiencies which can be passed onto investors as higher returns, but also enable local asset managers to trade more easily into more offshore markets, offering Australian superannuation investors a more diverse range of trading strategies and exposure to a wider range investment opportunities globally.

Innovation –

As a global provider of market infrastructure, DTCC has exposure to many market developments taking place today which will drive future operational efficiencies in financial services. It is important that the Productivity Commission's review include an assessment of the Australian superannuation system's readiness to benefit from innovation in these areas. Developments include the digitisation, standardization and organised dissemination of data to support operational and risk management activities (e.g. legal entity data hubs), utilization of data processing (e.g. KYC, SSI utilities), emerging solutions to enable firms to meet increased regulatory requirements (e.g. automated collateral management services), and advances in cybersecurity. In a similar vein, distributed ledger technologies have potential to further streamline and simplify financial industry infrastructure, particularly if standards are adopted to enable interoperability between systems and applications. A thorough review of Australia's superannuation system needs to include an assessment of whether Australia's policy and regulatory settings encourage or inhibit take-up of these types of innovation, as well as the local industry's capacity to adopt newer practices and technologies.

With its combination of mandatory employer contributions and private-sector management, Australia's superannuation framework is regarded as one of the world's more sophisticated pension systems by global standards. Australia's asset management industry is also viewed favourably. Notwithstanding, we believe there remain significant opportunities in this market and globally for on-going improvement and innovation, particularly in areas such as those outlined above, to further improve the efficiency with which underlying financial markets operate, and that these should be included in the Productivity Commission's assessment.

I am available to discuss any aspect of this submission further. If you wish to contact me, you can do so via contact details provided at the time of this submission.

DTCC Non-Confidential

Sincerely,

Matthew Chan
Executive Director, Asia Pacific
DTCC Omgeo Post-trade Services