

4 April 2024

Australian Energy Market Commission



Submitted online

### **Shortening the Settlement Cycle**

The Australian Financial Markets Association (AFMA) is responding to the consultation paper published by Australian Energy Market Commission (AEMC) in response to GloBird Energy's rule change request to shorten the National Electricity Market's (NEM) settlement cycle.

AFMA is the leading financial markets industry association promoting efficiency, integrity and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, carbon, and other specialist markets. Our membership base is comprised of over 130 of Australia's leading financial market participants, including many energy firms who are key participants in the NEM.

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#### **Key Points**

- **The cost of making the changes should be fully explored**
- **AFMA's standard electricity derivative documentation can accommodate the changes**

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#### **1. Shortening the settlement cycle**

AFMA considers that GloBird's proposal to shorten the NEM settlement cycle is likely to have significant implications for small retailers both in relation to the management of AEMO prudential costs but also potentially on their ability to access capital to fund their operations. Our membership has differing views on whether the changes will be positive or negative for small retailers, but we encourage the AEMC to consult broadly and consider the impact of the changes beyond just the costs of AEMO's prudential framework and the impact of the changes on AEMO's operational processes.

#### **AFMA Recommendations**

- i. The AEMC should explore the costs and operational implications of shortening the settlement cycle.

#### **2. Financial market contract implications**

Without commenting on the merits of the proposed changes AFMA wants to provide the following technical comments on the ability of financial market contracts to accommodate the proposed changes. The current AEMO settlement cycle is quite long by financial markets standards, where contracts typically settle within a period of 1 to 5 business days. AFMA therefore does not consider that a shorter settlement cycle will present significant operational problems for the electricity financial market.

The main electricity financial products used in the market are OTC derivatives, which are typically traded under the AFMA Electricity Addendum, and futures traded on ASX 24. Settlement under the AFMA Electricity Addendum occurs on the same day as settlement with AEMO under the National Electricity Rules (NER). It is not necessary for these dates to be aligned but the AFMA Electricity

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Addendum is designed to accommodate market participants' preference to have all market payments occur on the same day. We do not anticipate that parties who use AFMA's recommended settlement clauses will have to modify their agreements to accommodate the proposed shorter settlement cycle as the timeline is determined by reference to the NER provisions and therefore the contract settlement timeline will automatically be adjusted when the NER change. While AFMA is confident that the AFMA Electricity Addendum can support a shorter AEMO settlement cycle we consider there should be a 12 month transition period to allow market participants to work through the commercial implications of the changes.

AFMA also considers that settlement of ASX 24 futures contracts is unlikely to be affected by changes to the AEMO settlement cycle as settlement of futures contracts is not linked to AEMO settlement. ASX 24 electricity futures contracts settle 4 business days after the end of a calendar month and this is unlikely to change as a result of changes to AEMO's settlement cycle,<sup>1</sup> but we encourage the AAEMC to discuss the implications of this rule change with the ASX.

#### **AFMA Recommendations**

- ii. The AFMA Electricity Addendum does not need to be amended to accommodate a shorter settlement cycle.
- iii. There should be a 12 month transition period to allow participants to work the implications of any changes.

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact me at [lgamble@afma.com.au](mailto:lgamble@afma.com.au) or 02 9776 7994.

Yours sincerely,



Lindsay Gamble

**Head of Energy and Carbon**

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<sup>1</sup> P23 ASX 24 Contract Specifications <https://www.asx.com.au/content/dam/asx/participants/derivatives-market/ird/asx24-contract-specifications.pdf>