

## SCRIP NETTING

This subject has been receiving attention in Australia and the two following articles may be of interest to Society and Institute members outside as well as within sharebrokers' offices.

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SCRIP NETTING IN AUSTRALIA

By G.P. Walker

Scrip Netting is used in overseas stock exchanges and has been under consideration in Australia. This article describes one of a number of Scrip Nettings carried out in Sydney in 1970 and 1971.

Simply, Scrip Netting minimises the movement of scrip between brokers. It has no direct effect on the outstanding deliveries between a broker and his clients; however, indirectly the savings in time and money should overcome the paperwork problems seen in the past. It is noteworthy that the more active the market, the more efficient Scrip Netting becomes - a most uncommon characteristic.

The following table lists the results of Scrip Netting an active mining stock as at September, 1970. The outstanding delivery position of each Sydney broker before netting appears in the first three columns.

The entries in columns 4 OR 5 are the after netting positions which would have replaced the before-netting positions in columns 2 AND 3 if the Netting Settlement Statements had been forwarded to brokers and the new ledger, on magnetic tape, had been left in the daily cycle. Column 6 shows the savings achieved, which are expressed as a percentage, in column 7, of the before-netting position.

Scrip Netting reduced the total units outstanding between brokers by 73%. Two brokers gained nothing, one experienced a 100% gain and one was saved from delivering and receiving 471,920 units. Generally the larger the broker the greater the gain (relative as well as absolute).

The netting method employed automatically delivered all existing outstanding trades and replaced them with several net trades of convenient denomination which specified the broker to whom sells should be delivered or the brokers from whom buys could be expected. For example, there are two adjacent brokers near the top of the table with equal and opposite net positions of 6,800 units. A replacement trade could have been created between these two brokers, though in practice, the method used did not depend on such favourable circumstances.

Scrip Netting minimises the units outstanding and also reduces the number of deliveries and the value of deliveries. The netting described herein reduced the number of deliveries from 3,765 to 100, down 96%, and the value of deliveries from \$5,858,390 to \$1,633,650. One broker's six hundred outstanding deliveries were replaced by ten.

RESULT OF A SCRIP NETTING ON AN ACTIVE MINING STOCK IN SEPTEMBER 1970						
OUTSTANDING	DELIVERIES	BEFORE &	AFTER	NETTING,	FOR EACH	SYDNEY BRICKER
TOTAL	SELLS	BEFORE	SELLS	BEFORE	REDUCTION	PERCENT
BEFORE	BEFORE	BEFORE	AFTER	AFTER	IN-UNITS	SAVING
900		900		900		0 %
3,700	2,100	1,600	500		3,200	86 %
3,960	2,160	1,800	360		3,600	91 %
4,300	2,000	2,300		300	4,000	93 %
4,500		4,500		4,500		0 %
6,400	3,200	3,200			6,400	100 %
6,800	3,600	3,200	400		6,400	94 %
7,400	300	7,100		6,800	600	8 %
12,000	9,400	2,600	6,800		5,200	43 %
12,600	12,100	500	11,600		1,000	8 %
13,400	5,150	8,250		3,100	10,300	77 %
13,850	5,250	8,600		3,350	10,500	76 %
15,000	7,300	7,700		400	14,600	97 %
18,800	9,900	8,900	1,000		17,800	95 %
28,200	8,400	19,800		11,400	16,800	60 %
28,700	15,000	13,700	1,300		27,400	95 %
30,300	20,400	9,900	10,500		19,800	65 %
31,400	10,500	20,900		10,400	21,000	67 %
32,200	22,100	10,100	12,000		20,200	63 %
36,750	11,650	25,100		13,450	23,300	63 %
40,600	15,100	25,500		10,400	30,200	75 %
41,000	25,400	15,600	9,800		31,200	76 %
43,700	19,800	23,900		4,100	39,600	91 %
51,350	28,300	23,050	5,250		46,100	90 %
56,100	33,300	22,800	10,500		45,600	81 %
56,500	25,300	31,200		5,900	50,600	90 %
59,800	34,500	25,300	9,200		50,600	84 %
65,000	33,600	31,400	2,200		62,800	98 %
67,250	29,500	37,750		8,250	59,000	88 %
69,700	13,400	56,300		42,900	26,800	38 %
70,000	28,200	41,800		13,600	56,400	80 %
73,500	38,100	35,400	2,700		70,800	96 %
77,200	36,700	40,500		3,800	73,400	95 %
80,900	43,200	37,700	5,500		75,400	93 %
81,500	40,100	41,400		1,300	80,200	98 %
84,100	39,400	44,700		5,300	78,800	94 %
85,750	41,700	44,050		2,350	83,400	96 %
87,900	36,400	51,500		15,100	72,800	83 %
91,400	42,500	48,900		6,400	85,000	92 %
95,300	46,700	48,600		1,900	93,400	98 %
96,200	53,100	43,100	10,000		86,200	90 %
105,200	48,900	56,300		7,400	97,800	93 %
110,500	49,100	61,400		12,300	98,200	89 %
111,900	37,800	74,100		36,300	75,600	68 %
113,400	45,800	67,600		21,800	91,600	80 %
131,500	38,100	93,400		55,300	76,200	58 %
140,650	52,750	87,900		35,150	105,500	75 %
143,350	99,000	44,350	54,650		88,700	62 %
152,000	52,900	99,100		46,200	105,800	69 %
157,500	74,700	82,800		8,100	149,400	95 %
215,400	109,400	106,000	3,400		212,000	98 %
217,000	99,600	117,400		17,800	199,200	92 %
275,050	87,400	187,650		100,250	174,800	63 %
278,100	140,800	137,300	3,500		274,600	99 %
280,600	108,300	172,300		64,000	216,600	77 %
280,600	73,400	207,200		133,800	146,800	52 %
283,200	118,400	164,800		46,400	236,800	84 %
302,700	168,300	134,400	33,900		268,800	89 %
337,500	183,400	154,100	29,300		308,200	91 %
344,100	102,500	241,600		139,100	205,000	60 %
415,000	173,000	242,000		69,000	346,000	83 %
466,100	172,900	293,200		120,300	345,800	74 %
538,360	302,400	235,960	66,440		471,920	88 %
934,100	866,200	67,900	798,300		135,800	15 %
8,119,720	4,057,860	4,059,860	1,089,100	1,089,100	5,941,520	73 %

PROPOSALS FOR THE INTRODUCTION OF  
NATIONAL CONTINUOUS NET SETTLEMENT

A paper under this title has been prepared by the Australian Associated Stock Exchanges. The following extracts have been selected to explain the working of the system, and the approval of A.A.S.E. to their publication is gratefully acknowledged.

OBJECTS OF NET SETTLEMENT

Continuous net settlement may be described as a system for netting each Broker's transactions, both buys and sells in various stocks, to provide his net position over an agreed period, with all other Brokers, so that each Broker is required only to deliver or receive the difference in his net position, in place of the present Trade-for-Trade delivery and settlement.

The basic objectives of this system will therefore benefit Brokers by -

- (i) Reducing the amount of scrip processed in a Broker's office. Simulated exercises have indicated that 50% of Broker/Broker market transactions will be netted out using a one day netting cycle, rising to 75% by using a five day cycle.
- (ii) Relieving the Broker of the necessity for keeping detailed accounts for Broker/Broker transactions with the attendant problem of reaching agreement on open lines. In short, the objective is to limit the accounting and scrip processing functions of a Broker in respect of market transactions, to client transactions only. Within this framework, it is therefore most important that the terms of a transaction be defined as being a market transaction with anyone who is not a member of the A.A.S.E. Market transactions on a Broker's own account or on behalf of overseas Brokers are client transactions within this definition.  
By maintaining daily continuous balances in market transactions, the present costly reconciliation system will be eliminated.
- (iii) By reducing the number of open lines through netting, the number of adjustments presently required will be reduced.
- (iv) Providing a speedier settlement of market transactions.
- (v) Making it possible to consolidate clients orders for the purpose of operating on the Trading Floor.

In addition to these basic objectives and benefits, there are flow on benefits in the areas of -

- (i) Statistics and market information - by having all information from all A.A.S.E. Stock Exchanges centrally collected.
- (ii) Share Registrars - by reducing the volume of share registrations.
- (iii) Clients - by enabling investors to have shares registered into their name more promptly, and by removing from traders a considerable amount of document processing at present associated with their transactions.

Experiences of overseas Stock Exchanges where net settlement is in operation - Johannesburg, Montreal and Toronto, Mid West and Pacific Coast, Paris and Frankfurt - indicate that these benefits are real and enables the Broker to make more efficient use of capital, personnel and securities.