Asset Servicing Times

T+1 ANNUAL

Stewarding Industry Progress

Post-trade automation and standardization are critical to settlement efficiency, paving the way for T+1 settlement. By leveraging greater levels of automation, and collaborating and coordinating across the industry globally, firms will be prepared for a successful transition to a shortened settlement cycle.

With a focus on superior execution, risk management, and purposeful innovation, we guide our clients to solve their toughest challenges and grow their businesses.

The result? We help you achieve optimum performance.

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In early 2024, the financial markets of the United States, Canada, Mexico, and Jamaica took significant steps in transitioning to a T+1 settlement cycle, significantly reducing the time between trade execution and settlement.

This shift marks a pivotal moment in the evolution of global markets, and its impact is already being felt across the industry. As other regions, including Europe and the UK, prepare to follow suit, T+1 promises to keep reshaping settlement cycles worldwide.

In this T+1 Annual, we bring together leading voices from across the financial services sector to reflect on the early days of this accelerated settlement cycle and look ahead to what is next. With the US now over 100 days into its T+1 journey, Jeff Sardinha of State Street shares how the new settlement cycle has affected the ETF market.

As Europe's implementation looms, we explore the lessons learned from America's success and how these can inform future transitions across the globe.

From ambitious plans in Europe to more cautious approaches in Asia Pacific, Daniel Tison examines the varying paths towards T+1 adoption. Gabi Mantle of EquiLend takes a deep dive into how the industry is using lessons from T+1 to navigate regulatory changes, while Brian Steele from DTCC reflects on the historical significance of T+1 and the potential for a move to T+0 in the not-so-distant future.

These are just a few of the amazing features in this edition, offering a comprehensive look at T+1's early successes and its future as a global standard.

Justin Lawson
Publisher
Asset Servicing Times

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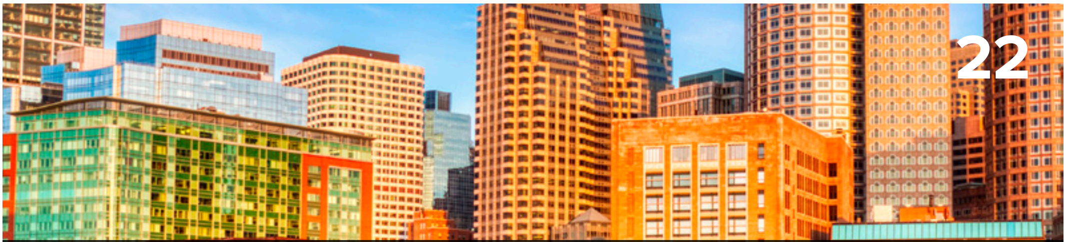

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Wolters Kluwer launches Cap DATA NOW

Wolters Kluwer has launched their Cap DATA NOW solution, an extension to the company's capital changes functionality, specifically aimed at accommodating the shortened T+1 settlement cycle.

The solution aims to facilitate straight-through processing of securities trades by automating the complete lifecycle of essential corporate action tax details.

Chuck Ross, vice president and segment leader, Investment Compliance at Wolters Kluwer Compliance Solutions, comments: "The move to a shorter settlement turnaround time as reflected in the T+1 rule presents significant challenges to brokers and requires the kind of nimble, robust automation functionality that Cap DATA NOW provides to help market participants comply." ■

DTCC claim 'smooth transition' to T+1

DTCC say they have experienced a 'smooth transition' to the shorter T+1 settlement cycle. Brian Steele, managing director and president for Clearing and Securities Services at the financial market infrastructure company, says the transition has been successful.

Steele commented: "After working closely with the industry for over three years, we are pleased these efforts are driving a smooth transition, including very high same day affirmation rates, which increased to 94.55 per cent yesterday. While we are proud of this progress, we will continue to collaborate with SIFMA, ICI and the industry to ensure a successful T+1 implementation in the coming days and weeks."

DTCC says that 94.55 per cent of transactions on 29 May were affirmed by the Depository Trust Company's cutoff time. This marked an increase in the affirmation rate from 73 per cent in January.

Prime broker affirmation rate stood at 98.6 per cent, investment manager auto affirmation (central match) rate was at 97.5 per cent, and custodian or investment manager (self) affirmation rate grew to 84.29 per cent.

DTCC also highlighted a decrease in fail rates. On the first day of trading on T+1, CNS fail rate was 1.9 per cent — down from 2.01 per cent average for May. The DTC non-CNS fails rate also was lower than the 3.24 per cent May average, standing at 2.92 per cent.

The movement to T+1 has also decreased the NSCC clearing fund from US$12.2 billion from the past month average to US$9.1 billion. ■

CASLA: T+1 achieves a smooth landing following implementation

T+1 proved to be a smooth transition for the US and Canada, and now participants have advised the UK not to be afraid to "have those difficult conversations", as the country works toward the implementation of a shorter settlement cycle.

Market participants gathered to attend the 14th annual Canadian Securities Lending Association (CASLA) conference in Toronto. The panel entitled 'T+1 in the Rearview' discussed the move to a shorter settlement cycle for the US and Canada over a week after its official implementation.

Moderated by Phil Zywot, head of North American equities and US corporates at BNY, panellists were questioned on the unexpected surprises of the transition, recalls, automation, and how the UK should handle its own transition to T+1.

It appeared that the "unexpected surprise" from the T+1 go-live was that there were no surprises, said Ahmed Shadmann, head of Agency Trading Canada and non-US equities at State Street. He added: "I was preparing for the end of the world scenario, but it was pretty smooth. The preparation paid off."

For one panellist, there were "a few hiccups" during the transition, however, market participants were prepared and continued to monitor the move.

An industry fear regarding the potential increase in fail rates during 27-28 May "did not materialise", confirmed Mathilda Yared, managing director of global securities finance at National Bank Financial.

The panel agreed that the transition to T+1 brought the industry together, as firms participated in "an immense amount of collaboration and discussion". However, one panellist in particular said that T+1 may be in the rearview, but it is a long road ahead. He advised firms to remain vigilant and to not become complacent.

In April, the UK government gave the go-ahead for the country to move to a T+1 settlement cycle. This journey will be led by the Accelerated Settlement Taskforce (AST), with the aid of its Technology Group, which aims to implement T+1 no later than the end of 2027.

Offering advice on the UK's T+1 implementation, the panel noted that companies should partner with all of the respected firms, leverage their vendors, and listen to the solutions that are out there. ■

FINBOURNE expands partnership with Taskize

FINBOURNE has expanded its integration with Taskize with the aim of improving post-trade operational efficiency.

The firms say the partnership has enhanced external exception management and query resolution capabilities for organisations. This will shorten resolution times, reduce risk and human error, and increase efficiency.

Gus Sekhon, head of product at FINBOURNE Technology, comments: “The ability to configure and control complex workflows on the platform is a given; the next challenge is reducing resolution times for intraday breaks in their book of record and this enhanced integration with Taskize does just that.”

The desire to improve efficiency comes in response to the implementation of the shorter T+1 settlement cycles, introduced in North America in May. ■

image byzgphotography/stock.adobe.com

DTCC and Cboe Clear Europe introduce new clearing workflow

DTCC has collaborated with Cboe Clear Europe, aiming to deliver an enhanced post-trade workflow for over-the-counter (OTC) cash equities trades and help increase settlement efficiencies across UK and European markets.

The companies say the offering will increase post-trade efficiencies while providing clients with the benefits of an established risk management counterparty.

They further highlight that the service will bring OTC cash equities trades into Cboe Clear Europe’s cleared environment, which can then be netted against on-exchange transactions for settlement purposes, delivering potentially significant efficiencies.

Val Wotton, managing director and general manager at DTCC Institutional Trade Processing, says: “We are pleased to be working with Cboe Clear Europe on this important initiative to bring greater post-trade efficiencies to the industry as the global markets look to accelerate to a T+1 settlement cycle." ■

image by asdf/stock.adobe.com

T+0 is 'simply not the next step', says report

Despite the success of the industry's move to T+1, moving to T+0 is not simply the next step in the process, according to a recent report. The 'T+1 After Action Report' was recently released by the Securities Industry and Financial Markets Association (SIFMA), Investment Company Institute (ICI), and The Depository Trust & Clearing Corporation (DTCC).

The paper reviews the general project timeline for the shortened settlement cycle, including its key milestones and achievements. It also discusses the future of settlement cycle acceleration, in which the three entities state that a move to T+0 would require a comprehensive independent review.

The report says: "While past transitions were an evolution of industry practices, moving to T+0 would require a fundamental reinvention of a range of products and processes across the trade lifecycle and large-scale changes bring with them risks that could potentially disrupt the operations of multiple products critical to the operations of the capital markets."

While the recent move to T+1 for the US, Canada and Mexico in May has brought benefits, industry consensus dictates that further accelerating to T+0 could introduce "significant risks and complexities".

A move to T+0 could exacerbate market dislocations that already exist, the report suggests, which are "adding operational friction between T+1 settlement markets and those under T+2 settlement — such as the UK, EU, and certain Asian markets. In addition, the report states that key infrastructure like foreign currency exchange settlement provided through CLS and others "could become increasingly disconnected" from what is necessary to facilitate effective same-day settlement in the US.

The success of focused experimentation involving same day settlement on a voluntary basis by certain market participants for a subset of their overall trading activity does not mean that a broad-based market move to T+0 is viable, or beneficial for the entire industry, the report suggests

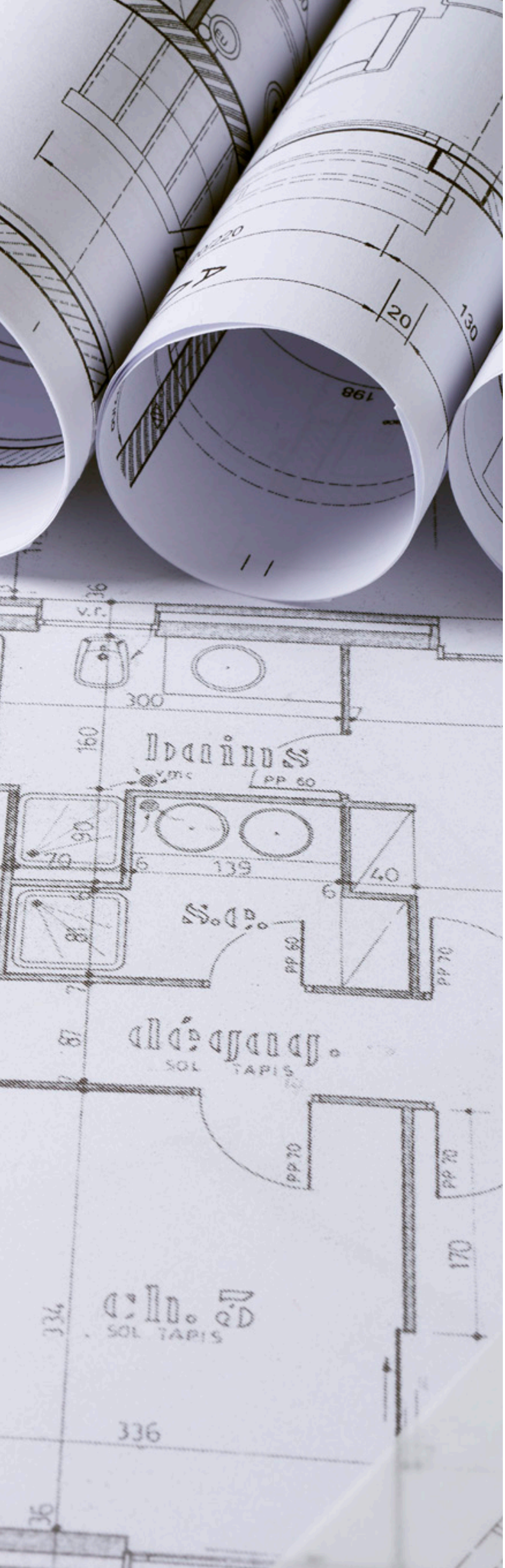
SIFMA, DTCC and ICI say the industry consensus on the topic of T+0 is that it is premature.

The three firms recommend that any action towards T+0 should be preceded by an extensive cost-benefit and risk analysis to validate the perceived benefits outweigh the risks and costs.

In conclusion, the report says the global market adoption of T+1 should be the focus for participants, policymakers and regulatory bodies, before any fundamental reworking of securities operations that would be required for T+0. ■

T+1 as a global standard

From ambitious plans in Europe to restrained approaches in Asia Pacific, Daniel Tison explores the diverse prospects of T+1 around the globe



May 2024 marked a significant step when the US, Canada, Mexico, Jamaica, and Argentina completed their transition to the T+1 settlement cycle. With adequate preparation, the move went smoothly, resulting in minimal negative impact. At the same time, though, it led to a misalignment between major global markets, which may now feel “peer-pressured” to follow suit.

For Sachin Mohindra, executive director at Goldman Sachs, reducing that misalignment risk is “absolutely paramount” due to the impact on transaction costs for the end investors.

“It hasn’t been as detrimental as some had expected it to be, but it’s still not the optimal way for the industry to be operating,” he says.

However, the move to T+1 has “a direct, day-to-day impact on trading activities”, which presents various challenges for global markets, according to EquiLend.

The first apparent challenge shared across both EMEA and APAC is the undeniable diversity in terms of multiple trading platforms, counterparties, collateral types, and fragmented jurisdictions with different legal frameworks.

Gabi Mantle, global head of post trade solutions at EquiLend, sees the key challenge in processing recalls because there is now no longer “a day's grace” to get the securities back.

She believes that automation is the answer: “There just isn't time to do things manually. There isn't time to make mistakes. So automated technology, which is there to streamline things and to make things smoother, quicker, and more accurate, is so important.”

EquiLend previously stated that a successful transition to T+1 requires a “multifaceted approach combining regulatory alignment, technological innovation, and industry collaboration”.

Post-Brexit collaboration in Europe

In December 2022, the UK government launched the Accelerated Settlement Taskforce to explore the potential for a faster settlement of financial trades. As a reaction to the taskforce's report from March 2024, the UK has committed to moving to T+1 and set up the Technical Group to determine the details of the arising technical changes.

"Technical Group has been appointed to take forward the next phase of the work on the accelerated settlement, and we look forward to receiving their recommendations," says a spokesperson for the Treasury. "The new government will consider the recommendations once the Technical Group's report has been published."

With an official deadline set to the end of 2027, the UK has been leading by example in implementing T+1 within the EMEA region.

"The purpose of putting the day out there was to set a reasonable day that would be a realistic time frame, but also puts enough pressure on the industry to start acting now," says Mohindra, who sits on the UK Accelerated Settlement Taskforce and Technical Group. Despite Brexit, he emphasises the significance of cooperation between the UK and the EU.

Mohindra believes that with effective collaboration, the three-year period is realistic for the entire European continent, as it is mostly about leveraging existing technology, making it "faster and fitter", instead of rebuilding the whole system. At the same time, though, he prioritises a pragmatic approach, with a constant assessment of potential risks, over unnecessary rush.

Lower risks, lower margin requirements, and international realignment are the key benefits of a shift to T+1 for the European Securities and Markets Authority (ESMA), which is responsible for assessing the impact of a shorter settlement cycle and producing a detailed outline for a transition in the EU.

However, the authority is aware of the challenges associated with the move.

"The process to get to T+1 in the EU will be complex," says an ESMA spokesperson. "It will likely require changes in Central Securities Depositories Regulation (CSDR), in existing Level 2 regulations, and potentially further regulatory guidance."

Besides regulatory changes, ESMA also calls for international cooperation across the industry to find solutions to some of the identified challenges and put them into practice through market standards.

"In an environment such as the EU financial markets, with multiple market infrastructures, currencies, and a broad range of market participants, solving these difficulties calls for robust governance," ESMA adds.

Following its call for evidence that closed in December 2023, ESMA published a report In March 2024, summarising market participants' views on shorter settlement cycles in the EU.

Respondents identified a wide range of both potential costs and benefits of a shortened cycle, with some responses supporting a thorough impact assessment before deciding. There was also a strong demand for clear coordination between industry regulators.

Stakeholders expressed the need for a proactive approach to adapt their own processes to the transition to T+1 in other jurisdictions. Some responses warned about potential infringements due to the misalignment of the EU and North America's settlement cycles, which ESMA is currently assessing.

ESMA presented the preliminary findings of its assessment at a public hearing, which took place on 10 July 2024. During this hearing, most participants responding to a poll suggested that Q4 2027 is the preferred date for a shift to T+1 in the EU.

In a proposed roadmap, ESMA works with the deadline of 2027 although no exact date has been announced for the EU. According to this proposal, solutions to technical challenges should be defined by the end of 2025 and implemented by the end of 2026, allowing one more year for testing before going live.

ESMA is now finalising its report and expects to publish it before the end of the year, ahead of the legislative deadline on 17 January 2025. European authorities will confirm their approach by the end of 2024.

Outside of the EU, Mohindra expects to see the traditional collaboration among Scandinavian countries extend to shortening the settlement cycle, as well. “There’s now a real strong sense of collaboration across the whole of the European region, not just UK and EU anymore, and I think that’s very important,” he says.

On that note, Mantle adds: “There will be so many markets that do change altogether that I think those non-EU markets who are not part of the discussion would possibly be at a disadvantage if they don't. So I suspect that they will also follow suit.”

Will South America align with the North?

In June 2023, the International Securities Lending Association (ISLA) set up a dedicated working group to assess the impact of T+1 in EMEA. However, according to Fran Garritt, executive director at ISLA Americas, the association is “actively exploring” the potential implications of T+1 beyond the EU and the UK, and ISLA Americas will work closely with them on this important topic.

With Mexico and Argentina adopting T+1 this year, there have been discussions about the potential move for other LATAM countries.

Garritt says: “While Argentina's market has relatively low volumes, and foreign investors typically trade the largest caps through American depository receipts (ADRs) or global depository receipts (GDRs), its shift to T+1 sets a valuable precedent.”

Views on moving to T+1 vary across the region due to “their unique conditions, regulations, and economic priorities”, as Garritt notes.

“Brazil, with its robust financial infrastructure and active capital markets, is particularly well-positioned to transition to T+1,” he says.

Although Chile, Peru, and Colombia appear to be “more cautious” about the move, Garritt continues, the integration of T+1 within the Mercado Integrado Latinoamericano (MILA) could offer a coordinated approach across the member markets.

Collaboration is “essential” for this transition, according to Garritt, and ISLA Americas is committed to supporting this process through its working groups and partnerships.

He adds: “By engaging with onshore and offshore stakeholders, as well as leveraging insights from ISLA’s work in Europe and the Americas, we aim to support a smooth transition to T+1 in LATAM while also addressing the broader needs of these key markets.”

Garritt believes that T+1 may help Latin American countries attract more offshore participants by reducing the time between trade execution and settlement, which can lead to greater liquidity, better pricing, and a more dynamic market environment.

At the same time, he acknowledges that the transition also presents several challenges, including the need for technological upgrades, changes to operational processes, and adjustments to market practices.

“Moreover, market participants will need to adapt to a faster pace, which could strain resources and necessitate comprehensive training and education initiatives,” says Garrrit.

“However, with careful planning and coordination, these challenges can be managed to ensure a successful transition to T+1 in the LATAM region.”

Restraints across APAC

The smooth transition of Northern America has also sparked discussions in major Asian markets like Singapore and Japan, with regulators exploring a coordinated Asia-wide move to T+1. While China already uses T+0 for stock settlement and T+1 for cash settlement, the rest of the region still follows T+2.

Mantle sees particular challenges in certain parts of continental Asia when it comes to implementing T+1. She says: "Some of the Asian markets have pretty strict settlement regimes already, and they have quite punitive settlement fail rules, as well, so I think the impact there is possibly going to be harder felt."

Australia is currently focusing on developing a new electronic system for the clearing and settlement of trades that would replace the current Clearing House Electronic Subregister System (CHESS). In a public consultation held by the Australian Securities Exchange (ASX), industry stakeholders unanimously advised against implementing T+1 simultaneously with replacing CHESS due to "increased risk and effort".

Commenting on the feedback received during the consultation, ASX said: "Given the very recent transition of North America and that Europe and the UK are not likely to transition until after 2027, we share the market's view that there is little appetite to transition to T+1 immediately."

Implementing T+1 after the release of CHESS replacement would enable the industry to benefit from the new system, but it would also mean a transition to T+1 scheduled for around 2030. Taking into account all of the above, this is ASX's "proposed and preferred recommendation", as part of its consultation paper from August 2024.

The Treasury of the Australian government adds that another key consideration is the impact of time zone differences: "If Australia moves to T+1, countries such as the US and the UK will effectively face a T+0 environment for investment in Australia. ASX has suggested that for these trades, most trade processing and matching will likely need to happen overnight."

Mixed prospects for the future

Looking ahead, Mohindra expects T+1 to become "a global standard". He says: "It's going to be a natural compounding effect of that peer pressure of all the industries coming together to move to T+1 as a standard going forward."

In terms of preparation, Mohindra advises financial firms to conduct a comprehensive assessment, collect data and test new technologies, ahead of the change to T+1. "It's like exercising for a marathon; we can start getting fitter and healthier today," he says. "Understanding which market, clients, and counterparties we need to work with to improve that [transition] is going to be really key."

Similarly, Mantle stresses the importance of good preparation. "Adopting things up front is definitely important," she says. "Don't underestimate how long we've got."

Nevertheless, she remains sceptical about implementing T+1 as a global standard in the near future due to the significant differences in certain markets across the world. She says: "For some of the more emerging markets, some of those less mature markets, I think it would be a bigger undertaking for them to make a change. So they may never align."

A potential for international cooperation between markets has been seen not only in Europe, but also in the LATAM and APAC regions. Mohindra celebrates this cooperation as, according to him, T+1 will only work well if everyone is ready for it together. He adds: "I certainly encourage firms to think about playing that active role because T+1 is a community effort, and the more representation you have across the financial community, the more robust and timely implementation we will end up having." ■

Industry dialogue and data collaboration

The keys to successful future transitions

With America's successful T+1 transition now complete, what lessons have we learnt for the upcoming European and UK implementations?

Pardeep Cassells, head of client experience at AccessFintech

After months of preparation and a tense start to the year, the industry's success in transitioning to T+1 settlement in North America and beyond feels like clouds clearing for the industry. Summer has finally arrived, and we are all breathing a sigh of relief after a positive start to this new era. While a few data points do not tell a complete story, early numbers indicate the industry as a whole was broadly prepared, specifically for North America's shift to a shortened settlement cycle.

First, trade fail rates have remained stable following the T+1 implementation on Tuesday, 28 May. Settlement fail rates remained below two per cent on the first two days of the transition, an impressive accomplishment given that the average fail rate for the period in May prior to the faster settlement was 2.01 per cent.

Next, the first three days post-transition saw gradual improvements in affirmation rates, rising from 92.76 per cent to 94.55 per cent and then 94.66 per cent. Finally, fails saw slight increases on days three and four, with affirmations also dipping to 91.26 per cent on 31 May (day four) following the MSCI rebalancing that same day.

However, this does not necessarily mean it is time to relax — full adoption into 'business as usual' may yet see some impact across the market. As project teams and temporary resources step away, the distinction between the settlement and affirmation rates of organisations who have introduced increased automation and seized the opportunity to re-evaluate operational processes compared to those who have used increased headcount as a sticking plaster solution is likely to become more apparent.

Meanwhile, the next set of clouds is gathering on the horizon. As Europe and the UK's deadlines for T+1 are still a few years away, now is a valuable time to reflect on the lessons we learned from this round of transitions and prepare for the challenges Europe and the UK will face in their move to shortened settlement cycles.

What comes next?

The UK's Accelerated Settlement Taskforce has recommended that the UK makes the transition no later than by the end of 2027, while Europe's shift could follow a similar timeframe.

Both the UK's taskforce and the European Securities and Markets Authority (ESMA) have stated that they look forward to engaging with one another to coordinate the move and ensure that the transition is efficient and cost effective, supporting a safe, resilient and integrated post-trade environment.

For the UK, this change is theoretically more straightforward as this is a single clearer region with a single legal framework to contend with. Europe, however, faces unique challenges.

With multiple jurisdictions, nearly 40 central securities depositories (CSDs) and myriad legal frameworks, even navigating all of the impacted markets may be a challenge, although organisations such as the Association for Financial Markets in Europe (AFME) continue to encourage cross-market collaboration.

Unlike North America, Europe requires instructions to be matched at the CSD prior to settlement, and participants face higher levels of cross-border settlement activity with counterparties often instructing in different CSDs. This is a layer of complexity that market participants are already starting to consider through work with industry bodies and ESMA.

In addition, European market participants are awaiting the final report from the ongoing Central Securities Depositories Regulation (CSDR) refit, which is expected to be published later this year or early 2025. This could see the introduction of a progressive penalty regime and possibly significantly increased penalties — albeit the latter impact seems to be scaling back from the initially proposed seven to ten-fold penalty increase, which is welcome news to many.

A parallel project to revise CSDR calculations and workflows resulting from a refit while preparing for T+1 in Europe will undoubtedly lead to additional stress on the industry.

Regardless of the scale and scope of the refit proposals, an ongoing CSDR regime in an accelerated settlement landscape adds a unique layer of complexity to planning, as increased cash reserve requirements for funding potential CSDR penalties compound the increased reserves needed for managing faster FXs for international activity.

Lessons learnt and the route forward

The successful change in North America has shown the importance of industry collaboration and communication in comfortably navigating such events.

Building on the foundation of insights gained through previous settlement cycle changes to use the best of what has worked before will also be necessary for further successful transitions.

Giving consideration to the October 2023 AFME report, 'Improving the Settlement Efficiency Landscape in Europe', three principal drivers of settlement inefficiencies have been identified for the market to consider: data quality, counterparty behaviour, and inventory management.

The importance of data quality in improving settlement efficiency is recognised across the industry and is an area of keen interest for me. This dates from my days leading a trade management function to my experience today where I see AccessFintech's network participants hold themselves and each other to account to achieve high quality data standards.

Enforcing a comprehensive, agreed minimum data set across the trade lifecycle, combined with AccessFintech's data normalisation which refines over 60,000 data attributes daily, has a clear and evidenceable impact on timely settlement and the eradication of manual effort.

Quality data from the outset, particularly in relation to trade economics including Standard Settlement Instructions (SSIs), PSET, and many more, enables organisations to ensure right-first-time matching and maximises timely settlement, mitigating the risk of CSDR penalties and moving the market towards a more normalised accelerated settlement cycle. In addition, clean settlement location information and a firm grasp of where positions are held directly reduce instances of delivery failure due to inventory issues, which often arise from holdings requiring movement from one depot to another.

A collegiate approach to enforcing good data standards by market participants themselves and growing market momentum towards data collaboration, which reduces the need for excessive query traffic, also lends itself to 'better counterparty behaviour' and intrinsic behavioural change.

The importance of industry dialogue and data collaboration

Industry dialogue and collaboration is the distinguishing factor that drives truly impactful change across the market. Only by working together will we collectively improve settlement efficiency and meet the challenges of T+1 changes to come. Improved data centralisation, normalisation and collaboration are foundational. By harnessing data in this way, optimised processes and real-time decision making will be unlocked.

AccessFintech has been and will continue to partner with firms globally to address this. Our Synergy Network connects executing brokers, prime brokers and custodians together with their clients to provide real-time data collaboration. This network now covers approximately 80 per cent of global market equity and fixed income trade activity.

Our services have helped organisations achieve fail rate reductions of up to 40 per cent and query traffic reductions of up to 90 per cent, freeing operational capacities and enabling proactive interventions to prevent trade fails within a shorter settlement timeframe.

Our AI capabilities continue to grow as we look to roll out our Predicted to Fail Probability feature which will enable firms to automate repairs based on our published insights. This innovation promises to further drive settlement efficiency by increasing automation, releasing capacity and minimising risk.

As the industry heads to the beach this summer, we can all take a bit of pride in the role we played in supporting North America’s transition to T+1. When we return, rested and revitalised, we should be ready to prepare for the next round of changes. ■

T+1: 100 days in

With the US transition to T+1 more than 100 days in, Jeff Sardinha, head of ETF Solutions, North America at State Street, speaks to Asset Servicing Times about the impact of the new settlement cycle on the ETF market

How would you evaluate the overall success of the T+1 transition for your firm and the broader US market over the first 100 days?

It could not have gone much better than it did considering the scope and impact the regulation had on the exchange traded fund (ETF) marketplace. A move to T+1, and T+0 in some cases, was much different than the move from T+3 to T+2, or even T+5 to T+3. State Street benefited from the 2019 move from T+3 to T+2. We were able to lay the groundwork for the eventual move to T+1. Based on how an ETF functions across two marketplaces (primarily with the fund and secondarily on the exchange) there was always a benefit to offering a shortened settlement cycle to the standard US settlement cycle. The shortened settlement optionality allows for more aggressive pricing of the ETF in the secondary market. When the US moved to T+2, State Street and the rest of the ETF industry was supporting T+1. Over the first 100 days we have seen usage of the T+0 shortened settlement capability on a daily basis, but not the volume of T+1 shortened settlement orders we saw when the move to T+2 occurred. Part of that is how new the T+0 change is and firms testing that the capabilities work the way they were intended to work. I fully expect an increase in volume as we get towards the end of 2024.

What specific challenges did your US-based clients encounter during the transition to T+1, and what were the most significant gaps you identified in terms of market preparedness? How were all these issues addressed?

The ETF marketplace was relatively well prepared to support the move to T+1. The ecosystem participants including custodians, administrators, authorised participants, market makers, and fund sponsors, spent the better part of a year working through what the move to T+1 meant to ETFs. There were a number of changes required to better support an ETF and allow for the same cost and operational efficiency that ETFs have become known for.

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> **"Whenever there are industry-wide changes the challenges are usually around the unknown, which I would define as something no one thought about or knock on impacts of changes that were not considered"**

Whenever there are industry-wide changes the challenges are usually around the unknown, which I would define as something no one thought about or knock on impacts of changes that were not considered. In the end the items that did arise were small and required more education and discussion to alleviate than systematic change.

Can you elaborate on the technological upgrades your firm implemented to facilitate the transition to T+1 in the US market? How did these changes impact your operations? What role did automation and modernisation of workflows play in ensuring a smooth transition to T+1 for your firm?

State Street made technology changes across the ETF technology stack covering the lifecycle of the ETF. Starting with our primary market order taking platform, Fund Connect, we extended order taking windows earlier in the business day as well as created intraday reporting capabilities to allow for T+0 settlement. Moving onto our ETF Global Platform that is used to support basket production, security transfer instructions, and reporting. We made changes to allow for intraday creation of transfer instructions to be released to the marketplace in support of the expedited settlement. Lastly, we looked beyond what was needed to support the expedited settlement and made changes to the collateral processing used in ETF settlements. State Street added the ability to do same day returns of collateral. This should provide savings to ecosystem members within the primary market settlement and benefit the underlying purchaser of the ETF. To date we have seen a reduction in collateral held by about 24 per cent. This should equate to savings down the value stream.

The modernisation of the workflow allowed for more intraday capabilities which we think is a need across the ETF industry with the proliferation of active management. The more accurate and timely data you have the more opportunity a manager has to make decisions to the benefit of shareholders. This is part of the reason that State Street created its ALPHA front-to-back platform that includes integrations between back office, middle office, and front office.

What benefits, if any, have you and your US clients noticed already as a result of moving to a T+1 settlement cycle? Have there been any unexpected challenges now that it is in operation?

The goal for the ETF industry was to avoid operational inefficiencies which could lead to high costs and friction. If the industry did not come together to design and make the changes described the ETF would still function. The ETF would just function less efficiently, and likely be more costly. That is the biggest benefit I have seen of the work that was done. ETFs have been taking an outsized portion of flows across both passive and active for years. The goal was not to disrupt that and I think we successfully accomplished that. Additional benefits we have seen over the first 100 days is a reduction in collateral as mentioned previously. There are a few things coming together on that reduction. Part is the same day collateral return capability State Street rolled out. Part is a reduction in fail rates from Aps. At the same time any use of a T+0 settlement would increase collateral on hand. If we strip out the T+0 settlements the collateral savings are greater than the 24 per cent mentioned.

What feedback have you received from your international clients regarding the new T+1 settlement cycle, especially considering time zone differences and their interactions with the US market?

Similarly in Europe, the transition went as well as could be expected due to the high focus across the industry, including cross participant working groups, in advance of the change. If there was a negative consequence it was to a subset of European listed ETFs that have large US exposure.

Increased funding cost can occur at times for APs where the settlement cycle of the order has been reduced to match the US market while the remainder of the fund exposures in Europe would be T+2.

What lessons have you learned from the transition to T+1 that could inform future regulatory or operational changes in the US securities settlement process?

The ETF marketplace is ahead of the baseline settlement timelines when we went beyond T+1 and created the capability to support T+0. From a legacy financial markets perspective there is not much more room to reduce settlement.

I think where the conversation goes is to move processes that took place on legacy financial rails onto digital rails, more specifically, Tokenisation of assets.

There are teams of people inside of State Street and other ecosystem members working on Tokenisation efforts. ■

"The more accurate and timely data you have the more opportunity a manager has to make decisions to the benefit of shareholders"

Jeff Sardinha
Head of ETF Solutions, North America
State Street

History in the making

The US transition to T+1

With T+0 already being lined up as the next obvious step, Brian Steele, DTCC managing director, president, Clearing and Securities Services, considers the significance and benefits of the US move to T+1

The preparations leading up to a shortened settlement cycle of T+1 in North America were careful and comprehensive, and while practically invisible to the end investor, this was a major global undertaking that touched nearly every corner of the financial industry.

For more than three years, the Depository Trust & Clearing Corporation (DTCC) partnered with key industry stakeholders, including the Securities Industry and Financial Markets Association (SIFMA) and the Investment Company Institute (ICI), to lead a transformative initiative that has now strengthened the global financial market structure, reduced counterparty risk and improved capital efficiency and liquidity in securities transactions.

Accelerating the settlement cycle to T+1 required industry participants to migrate to more efficient ways of transaction processing, including further automation and the adoption of industry standards. And, in addition to improving each firms' individual processing, these advances had the added benefit of improving market and settlement efficiency for the entire industry. DTCC is proud of how our collective and coordinated work with the industry and regulators ensured a successful and seamless transition for the US market to T+1 on 28 May 2024.

Now that we are a few months into T+1, the dust has settled, and the financial services industry is functioning well under the 'new normal' of settling transactions just one day after the trade for US cash equities, corporate debt, and unit investment trusts. At DTCC, we have collected data and feedback from clients, as well as insights from our own clearing and settlement systems, to enable us to take a step back and assess how a shortened settlement cycle of T+1 is delivering on the benefits and promises of greater operational efficiencies in this multi-trillion dollar securities market.

Generating industry-wide savings

One of the key industry benefits promised by T+1 was the decrease in clearing fund requirements. From day one we saw that, because T+1 reduced risk, which immediately lowered margin requirements and thus saved money, freeing up member capital. The move also reduced settlement latency, which now makes cash and securities available to investors sooner. By the numbers: since the transition to T+1, the National Securities Clearing Corporation (NSCC) clearing fund decreased 25 per cent from the previous month average of US$12.2 billion in a T+2 environment, to US$9.1 billion — a savings of more than US$3 billion.

Looking at this quarterly, the clearing fund requirements are down even more dramatically, from US$12.8 billion to US$9.1 billion, which represents a saving of US$3.7 billion (29 per cent). This extra liquidity creates opportunities for clients to invest in other activities to strengthen their organisations and achieve their business goals and objectives, and these improvements have provided end investors with better utilisation of their assets.

T+1 drove significant operational efficiency

T+1 was the catalyst needed across counterparties to take a hard look at modernisation and process redesign, and to reassess innovative technologies and solutions. An accelerated settlement timeline added pressure across all parties in the ecosystem, and one of the biggest opportunities firms took away was reduced operational risk through modernisation. T+1 required market participant firms to adapt their operations to ensure they would have adequate time to allocate, confirm and affirm trades by 21:00 EST on trade date, the T+1 DTC affirmation cutoff. As of January 2024, DTCC data showed only 73 per cent of all trades were affirmed by 21:00 EST on trade date. After T+1 implementation, affirmation rates peaked at 96 per cent, and today are averaging around 95 per cent — all without a material increase in fails.

This progress is the direct result of the incredible work that firms put in to automate post-trade processes, many leveraging DTCC's Central Trade Matching Platform (CTM) solution, and its Match to instruct (M2i) workflow which leverages CTM, ALERT, and TradeSuite ID together to automatically trigger trade affirmation and delivery to DTC for final settlement. Prior to T+1, this was an inefficient part of the trade process that had traditionally taken a backseat to other priority front office investments. The adoption of CTM's M2i workflow has been a critical enabler to achieving T+1 settlement. Despite the concerns that the number of transaction failures could increase in a tighter timeframe, especially in Asia, we can see in the data there was no rise in failed trades.

Preparation and testing were key

We prepared extensive testing cycles and schedules, with new DTCC's test environments. We provided clients with instructions on how to connect to these test environments, as well as suggested test scenarios to run through their own T+1 test plans. We know that preparing for T+1 drove significant technology modernisation. And we know that the careful and thoughtful preparation, active testing, widespread communications, and industry-wide collaboration with the industry and clients over the past three years proved to be essential to a smooth transition, providing us with many observations that can be applied to other sweeping industry initiatives.

Reduced risk and improved industry resilience

Accelerating settlement requires careful consideration, industry coordination and a balanced approach to avoid creating capital inefficiencies and introducing new, unintended market risks. While the markets have been smooth since the T+1 transition weekend, we know unexpected volatility and market risk events can arise at any time. In a credit risk event, under T+1, there are now fewer unsettled trades still sitting in the pipeline, allowing a quicker resolution, and reducing overall market risk.

Removing one additional day from the settlement cycle was a seismic shift in the functioning of the equities markets. In comparison, the industry transition from T+3 to T+2 in 2017, while challenging, was less complex because the applicable timeframes were not as compressed as they are under T+1. For instance, in a T+1 environment, the window from the point of execution to settlement narrows from 19 hours to just five hours, which demands a higher level of coordination between the global, interconnected systems that sit at the heart of the marketplace. This compressed timeframe leaves less room for error, which is why firms had to leverage solutions to further automate their post-trade processes and eliminate manual or third-party involvement. Doing so paves the way to settlement finality and supports faster exception resolution — even when there are volume fluctuations.

At the same time, we also encourage firms to review and enhance their business continuity and contingency plans to ensure their continued ability to address any challenges and meet settlement deadlines. DTCC will continue to provide elevated support and transparency to keep industry stakeholders and regulators informed on T+1's progress and we will continue to partner with our clients to uncover additional ways of improving resiliency in a T+1 operating environment, including considering additional market structure changes that may benefit the industry by increasing operational efficiency and meeting potential future accelerated settlement cycles. We all need to remain focused on identifying additional opportunities to increase resiliency in the market.

T+1 is driving accelerated settlement around the world

T+1 was not just a settlement issue — it touched all parties in a trade's lifecycle. It was also a global event, impacting investors accessing North American markets. The US move to T+1 has quickened the move to shorter settlement cycles around the world.

Today, approximately 55 per cent of the market globally settle on a T+1 cycle, with Canada, Mexico, Argentina, Jamaica, and Peru, also having moved to T+1 in May 2024. Currently, other regions are coalescing on implementation dates in 2027 and 2028, while Australia is aiming for 2030. Once completed, we will see approximately 85-90 per cent of global markets activity settling T+1. There is an appreciation that settlement flows differ in APAC, UK, and Europe, which present their own complexities. DTCC is actively engaged in both the UK and European Industry T+1 Task Forces. We have also met with several APAC CSDs/CCPs (SGX, ASX, HKEX) and have responded to the ASX Australia T+1 Paper.

"The question we often get is: 'Now that the industry has achieved T+1, when will we move to T+0?' But that is a much thornier issue to consider"

We look forward to helping support other markets in their planning and preparations for accelerated settlement. While it is too early to predict how quickly this may happen or whether these other global markets will choose to move together, one thing is certain — many jurisdictions are focused on achieving the benefits that come with accelerated settlement cycles, including new efficiencies and capital and cost reductions.

This is not necessarily the end state

The question we often get is: "Now that the industry has achieved T+1, when will we move to T+0?" But that is a much thornier issue to consider. Real-time settlement is a simple technical solution, but an extremely complicated market structure change. With real-time settlement in today's market structure, the entire industry — clients, brokers, and investors — lose the liquidity and risk-mitigating benefit of netting, and that is particularly critical during times of heightened volatility and volume. While the move from T+3 to T+2 to T+1 was a relatively linear evolution, the industry has many complex issues to assess and address before even thinking of T+0, as such a move could have the unintended effect of eliminating the enormous benefits and cost savings of multilateral netting. ■

Lessons learnt

The relative smoothness of T+1 is reflective of the industry's readiness to adapt to regulation

Gabi Mantle, head of Post-Trade Solutions at EquiLend, looks at how the lessons learnt from a move to faster settlement can help the industry as it faces changing regulation

Since 2008, almost 20 separate pieces of regulatory reform have come into force across the global financial landscape, including Dodd Frank, the Shareholder Rights Directives (SRD and SRD II), the Markets in Financial Instruments Directive (MiFID) II, and the European Market Infrastructure Regulation (EMIR). Those even more directly impactful for securities finance include the Central Securities Depositories Regulation (CSDR), the Securities Financing Transaction Regulation (SFTR), T+1, and more to come with the US Securities and Exchange Commission's (SEC's) 10c-1a and Basel III. There are many global forces challenging market participants, including inflation and global socio-economic factors, but the strongest, pervasive force remains regulation.

T+1 is the best example so far of the industry's preparedness to adapt to regulatory change. As recently as 27 months ago with the introduction of CSDR, we saw a dramatic increase overnight in so-called 'ghost borrowing' — overborrowing to ensure collateral cover. This overborrowing meant an increase in recalls and returns volumes and a squeeze in collateral, stock availability and overall liquidity, putting undue pressure on systems.

Then, the driver for the system strain was a lack of trust that automated systems could both take the strain of what were previously human processes and could calculate such requirements correctly at pace.

Against this backdrop, it was a huge positive to see such a smooth adaptation to T+1 in the days post go-live in the American markets in late May.

Lessons learned and processes developed for CSDR in 2022 gave the market confidence to embrace T+1 and ensured this smooth transition to T+1 in late May 2024 for Canada, the US, Mexico, Argentina and Jamaica. The first contraction of settlement since 2017, the timelines proposed under T+1 simply do not allow for manual intervention. The only option for market participants was to place their trust in the tech. The result was a swift rise of 176 per cent in automated recalls on the EquiLend Risk Resolution Suite. Additionally, in response to the change in returns cut-off time from 15:00 EST to 23:59 EST, firms' recalls activity adapted overnight from the usual morning and late afternoon spikes to a spread of activity across the day in line with the later recalls cut-off. There was no spike in exceptions, just a smooth switch.

Regulation

With T+1 set to become the global industry standard, increasingly firms are investing in vendor tech to ensure compliance.

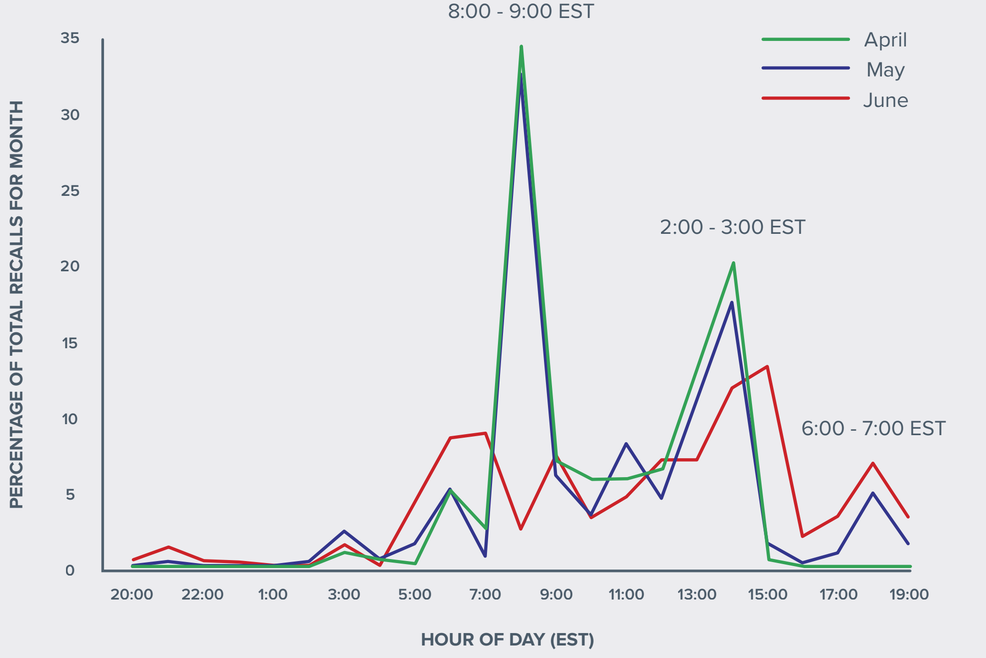
For EquiLend, automation is at our core, with wide-ranging interconnectivity across our solutions. Central to our T+1 solution is our post-trade Risk Resolution Suite (R2S), where the 176 per cent increase in recalls volumes since early May is evidence that firms have truly embraced automation.

This behaviour change, while directly related to T+1 go live, marks the true beginning of future-proofed trading behaviours which will extend beyond the regulation's impact in a single region to become commonplace globally. With regulation as a catalyst for change, the pathway to global data and reporting alignment is assured.

As we stand in early July, a month after T+1 go-live, we have seen this alignment in real-time with a marked shift in recalls behaviours as firms fall in line with the new notification cut-off of 23:59 EST, a change from 15:00 EST. Pre-T+1 we could identify two clear spikes: 08:00-09:00 EST where firms were processing recalls received after market close from the previous day, and 14:00-15:00 EST for close-of-day processing of those recalls received before market close. Immediately on T+1, firms adapted their behaviours to accommodate the new settlement regime and reduced post-execution time frame, initiating recalls as they came through.

The fundamental shift in timings depicted below shows that post-T+1, recalls are being processed during the afternoon on T+0 to allow for settlement on the T+1 due date.

Recalls received per hour



What these time and flow changes tell us more broadly is that where regulation may have initially driven the necessity for change, with greater adoption has come greater confidence in digitisation and automation. For EquiLend, that is the crux of the challenge — how to continually support our clients in the modernisation of their systems and workflows, oftentimes as dictated by regulation.

"What these time and flow changes tell us more broadly is that where regulation may have initially driven the necessity for change, with greater adoption has come greater confidence in digitisation and automation"

The move to T+1 was not without its challenges, but I echo what has been said by several industry representatives that preparation was key to its success. The UK government has confirmed a move to T+1 by the end of 2027, and we expect the EU to move in a similar timeframe. Looking ahead to the same shift in settlement for the UK by 2027, there are many more discussions to be had. EMEA crucially faces a number of challenges unique to the area which complicate T+1 further, including multiple clearing houses, currencies, time zones and the preference for non-cash collateral. Not only will firms need to upgrade their technology, they will also have to consider the availability of greater readily available collateral, which introduces its own risks. Firms in scope for Basel III face a similar challenge from the capital adequacy proposals based on risk-weighted averages.

Another post-trade solution, EquiLend Exposure, supports firms in identifying collateral needs and mobilising collateral quickly, but without the uptake of a cohesive end-to-end solution to address the overall market challenges of shorter settlement time, coupled with the demand for increased accuracy and ever more liquid collateral, firms will find compliance an expensive business. The true cost of regulation is in not adequately preparing for the change.

As a member of the UK Accelerated Settlement Taskforce and the EU cross-industry taskforce, I have been proactive in sharing our predictions and findings for T+1. The UK Taskforce is currently centralising the outputs from each of the subgroups here, hosted by KPMG. The committee is urging market participants to engage and share any further findings so that each region may be further prepared for T+1 in their region.

The Taskforce Chair newsletter is also published on this site and contains valuable insight.

Regulation has changed what, why and how financial firms automate, but the pace of change has begun to outstrip any reluctance to capitulate.

It is no longer an option to underfund or resist digital transformation — in fact it is the newest frontier. Post-trade automation across the full lifecycle is rapidly becoming the standard across the globe.

Trading of the future looks very different, and even in the near future, newer forms of technology such as distributed ledger technology (DLT) with EquiLend 1Source will be the new way. Regardless of the technology itself, tech vendors are at the centre of that change, facing off to the dual needs of regulator and market participant. ■

The path to T+1

Navigating the global shift in settlement cycles

Kamal Kannan, product and commercial director at S&P Global Market Intelligence, takes a look at the ripple effects and global impact of the move to T+1

The transition to T+1

On 27-28 May 2024, the US, Canada, Jamaica, and several Latin American securities markets, including Jamaica, Peru, Argentina, Mexico, transitioned to an accelerated settlement cycle of one day after trade date (T+1), for specific instrument types. The success of the transition is largely credited to the extensive preparatory efforts, including the formation of industry working groups, an extensive implementation playbook, comprehensive end-to-end testing, and coordinated education and communication across the global financial services community.

Notable results and benefits

The transition has yielded significant results particularly in reducing clearing margin requirements. In the US market, the National Securities Clearing Corporation (NSCC) Clearing Fund decreased by more than 28 per cent, dropping from US$12.8 billion to US$9.2 billion, resulting in a savings of US$3.6 billion. Same-day affirmation rates have reached 95 per cent of transactions by the 21:00 EST cutoff on the trade date. The average trade fail rate remained around 2.12 per cent for continuous net settlement trades (CNS) and 3.31 per cent for non-CNS trades in July 2024, consistent with T+2 settlement rates.

Challenges and ripple effects

While the transition is being viewed by many as a success, it has had a ripple effect in several areas — notably in funding, securities lending, and fund performance. Costs related to FX spreads, pre-funding, margining, as well as unaffirmed trades, fail management, loan execution, and recall management, have all exceeded expectations.

Furthermore, full-time employee (FTE) costs, including those required on weekends, have also risen. European Union-domiciled S&P 500 tracker funds and exchange traded funds (ETFs) experienced a 14 basis point lower return compared to their US domiciled counterparts.

Global preparation

Following the US market's shift to a T+1 settlement cycle, other markets have begun preparing for shorter settlement periods or are at least in the discussion stage.

The primary reasons cited are to maintain a competitive edge, eliminate settlement cycle misalignments, and capitalise on the clear benefits of reduced margin requirements and enhanced post-trade automation.

UK and EU preparation

The UK Accelerated Settlement Taskforce (AST) is positioning the UK as the next major global market to adopt T+1 settlement with a 2027 transition using a phased and strategic approach. Although the UK's settlement market is similar to that of the US, the transition will still require significant preparation and coordinated testing. The European Securities and Markets Authority (ESMA) is also facilitating a working group for the EU's potential T+1 transition and has suggested a tentative timeline, aligned with the UK's 2027 target. However, the fragmented nature of European markets, the complexity of multiple market infrastructures upgrades, and the planned integration with TARGET2-Securities, magnify the challenges and make the process far more difficult and complex.

Key factors for success

The successful transition of the US market to a T+1 settlement cycle can be primarily attributed to regulatory support and coordination of key market stake holders.

The US regulatory bodies, such as the US Securities and Exchange Commission (SEC), along with the Securities Industry and Financial Markets Association (SIFMA), the Investment Company Institute (ICI), and The Depository Trust & Clearing Corporation (DTCC), have all played a pivotal role in driving the T+1 transition and adoption. Together they have provided clear guidelines, set timelines, and facilitated industry-wide collaboration.

In contrast, currently no single entity within the UK or EU markets has taken full responsibility for overseeing this significant market shift. It is crucial to design a well-structured roadmap for T+1, with proper planning, coordination, and leadership to ensure a smooth and successful transition. Given that the UK/EU has shifted from asking 'if' to 'when' the transition will happen, now is the time to move past the question of who will lead it.

The relevant regulatory bodies and market infrastructure providers need to step up and spearhead the transition, while market participants and technical committees can provide the details on how the transition should unfold.

Preparing for the future

The transition to T+1 is ongoing, but the preparation must start now. Firms that saw T+1 as an opportunity to streamline and automate their post-trade operations, implemented standardised communication protocols, and analysed client behaviours and trade failure metrics, implemented effective intraday liquidity and positions inventory have reaped significant benefits.

S&P Global Market Intelligence's role

At S&P Global Market Intelligence, we assist clients on their digital transformation journey with our Securities Processing Solution, delivering a smooth transition from legacy platforms to state-of-the-art technology solutions. We enable organisations to optimise their entire post-trade operation, while increasing straight-through processing (STP), and reducing the time, effort, and overall risk involved. ■

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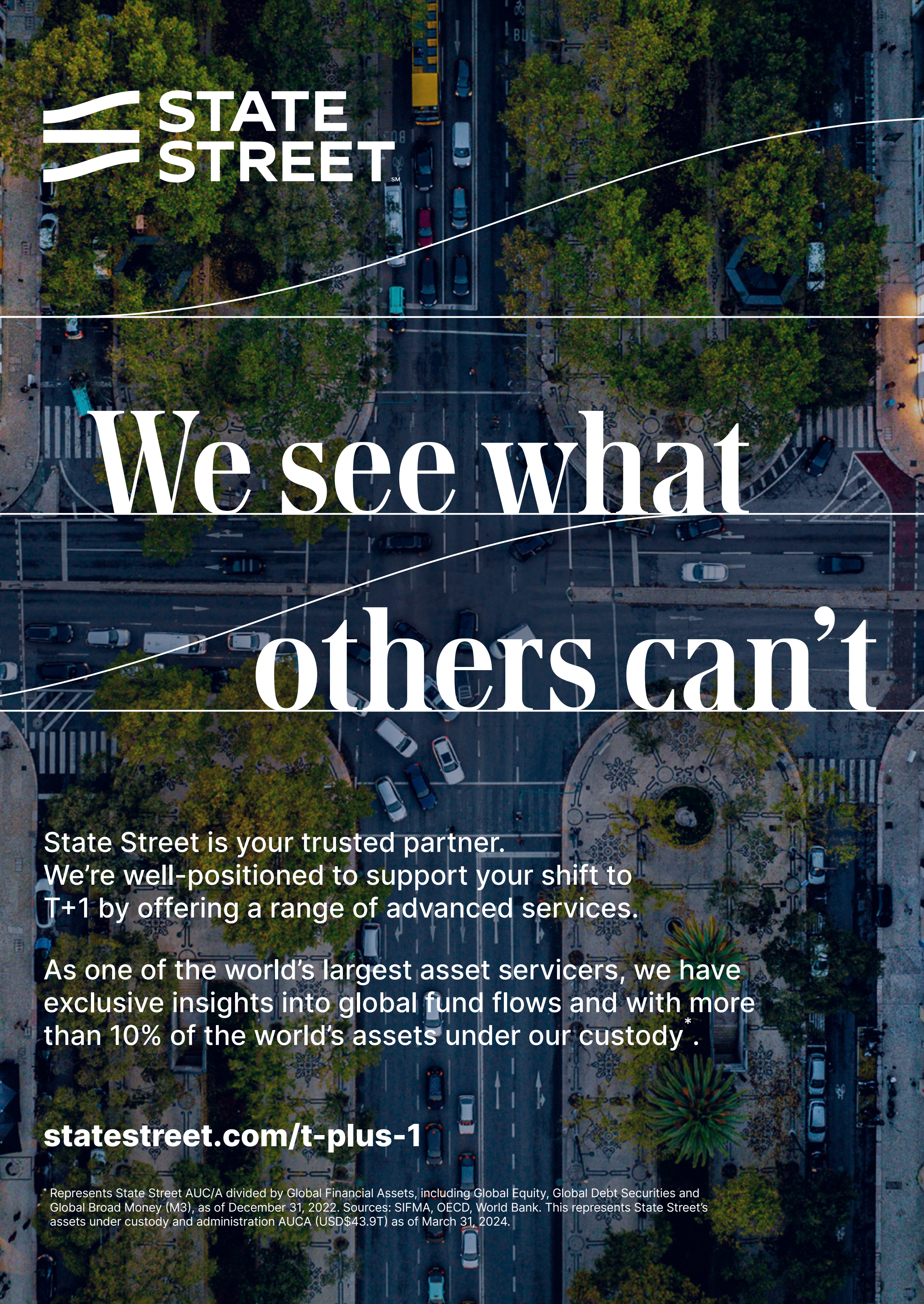
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