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T+1 Isn't Just a US Challenge

Val Wotton

MANAGING DIRECTOR AND GENERAL MANAGER, INSTITUTIONAL TRADE PROCESSING, DTCC

With the US, Canada and Mexico on track to move to a **T+1 settlement cycle**, the rest of the world is busy assessing the impact, opportunities, implications, and obstacles involved in compressing the settlement cycle to one business day. While the other markets consider their options, the UK and Europe are evaluating such a move and we should expect their reports sometime in the second half of 2024 detailing the findings to guide their migration to T+1.

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This domino effect is not surprising, given that the US equity markets are the largest in the world and continue to be among the deepest, most liquid, and most efficient, according to the Securities Industry and Financial Markets Association (Sifma) Q2 2023 quarterly report. North America's move to T+1 represents a structural change in the financial ecosystem and other major markets should follow suit to harmonize their settlement cycle with the US.

MOVING TOWARD NEXT-DAY SETTLEMENT

Accelerating the settlement cycle to T+1 globally could help ensure that major financial markets remain competitive and become more resilient. That said, there are important considerations that need to be studied in each market and across markets at the macro level.

For example, the UK and Europe are highly fragmented, with more than 30 central securities depositories (CSDs) operating in the region, each with its own cut-off times and settlement batch runs. These will all need focus from market participants in case true harmonization is not possible.

> **"The transition to T+1 may trigger firms with trading counterparties beyond domestic shores to review and upgrade existing processes and consider adjustments for all parties involved in the post-trade, pre-settlement chain."**

Along with the UK and Europe, Asia will need to address some key issues like fragmentation pressures arising from different tax and legal systems, varying regulations, and local nuances on capital control requirements, among others. Market and operational complexities aside, one cannot ignore the benefits of reduced counterparty risks and improved capital efficiencies that a shortened settlement cycle brings, which explains why accelerated settlement continues to be a key topic across markets.

The growing interconnectedness among capital markets within and between Asia, the US, the UK, and Europe, could be the added nudge for markets to consider the switch to T+1—to bridge misalignment in settlement cycles with overseas counterparties and enable efficient processing of trades on an international level.

As developments around shortened settlement cycles gradually unfold across markets, the transition to T+1 may trigger firms with trading counterparties beyond domestic shores to review and upgrade existing processes and consider adjustments for all parties involved in the post-trade, pre-settlement chain.

This is an opportunity to modernize technology and enhance processes both at the firm level and the entire ecosystem level to meet the demands of shortened settlement cycles and evolving regulatory and market requirements. End-to-end automation and no-touch processing is an undeniable building block to achieving accelerated settlement. With the speed and rate of change in today's unpredictable financial services landscape, firms should not wait until the eleventh hour to source for solutions to cope with compressed settlement cycles.

EXPANDING THE NETWORK CONNECTION

For market participants, a key element to a successful shift to shortened settlement is to eliminate manual processes and human intervention in the post-trade process by leveraging technology that achieves automated no-touch trade processing and standardization of communications for clearance and settlement. A no-touch workflow can help to accelerate the trade lifecycle, quickly identify issues and exceptions, lower risks associated with manual processes, and ensure an audit trail for operational benchmarking and compliance purposes.

To broaden access to a wider group of market participants, the no-touch workflow can be extended to integrate with prime brokers—instead of just benefiting institutional investors and broker/dealers—to form a tri-party matching workflow, which will help unlock clearing opportunities by connecting more broadly with CCPs across Europe and Asia to achieve settlement efficiencies.

In a similar vein, standards like unique transaction identifiers (UTIs) are important industry agreed-upon formats that can be leveraged to provide transparency and a common communication protocol for market participants. Using UTIs across all platforms will ensure greater visibility into a transaction's movement through the trade lifecycle—allowing parties involved to track the status of any given trade, at any time, in any location in the ecosystem—key to achieving accelerated settlement timelines.

At the same time, trade issues and exceptions can be identified and resolved quickly, effectively connecting firm-level transactions to downstream CSDs for clearing and settlement. This can increase the speed at which trade information can be identified and paired at the CSD level to reduce latency and facilitate greater settlement efficiencies in the age of T+1.

NO-TOUCH IS NOT JUST A FANTASY

Adopting a no-touch workflow across borders and CSDs is not just pure theory. The HKEX Synapse integrated settlement platform is now linked with the Depository Trust and Clearing Corp.'s (DTCC's) Institutional Trade Processing (ITP) suite of services—enabling global investors and HKEX participants to leverage central matching of cross-border trades to create a "golden source" of trade data for simultaneous processing by clearing brokers and custodians.

The no-touch workflow helps to address time-zone and settlement cycle differences by automating the trade confirmation, settlement notification and exception handling processes through a real-time link with Synapse. This capability is crucial for managing tight settlement cycles like China's T+0 market where global investors could utilize the Synapse platform via DTCC's ITP services to trade in eligible Chinese securities or A-shares on either the Shanghai or Shenzhen stock exchanges via the northbound Stock Connect.

Stock Connect is a cross-border program that enables foreign investors to access China's equities market without the need to obtain a Qualified Foreign Investor (QFI) license onshore to keep their exposures within Hong Kong.

By connecting the dots across the post-trade lifecycle to remove operational inefficiencies and ensure transparency and oversight from trade execution to settlement finality at the CSD-level, trades can move more quickly and with greater confidence to settlement—facilitating the advancement to a safer, more efficient, resilient financial system.

This article was originally published to WatersTechnology on March 13, 2024.

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