

The transition to T+1: Accelerated settlement cycles and progress so far

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ABSTRACT

This paper examines the current momentum driving faster settlements in financial markets, specifically focusing on the shift from trade date + 2 (T+2) to trade date + 1 (T+1) settlement cycles. The U.S. Securities and Exchange Commission (SEC) and the Canadian Capital Markets Association plan to implement it in May 2024. His Majesty's Treasury in the UK and the Association for Financial Markets in Europe (AFME) have both established taskforces to assess the feasibility of transitioning to T+1 settlement. This paper aims to provide readers with a comprehensive understanding of the accelerated settlement movement and its potential implications for global market participants. It will delve into the reasons behind the simultaneous adoption of this change across various markets, highlight the key changes being introduced in the US market, and explore its impact on market participants within the US. It will also address the consequences of accelerated settlement for international markets, raising critical

factors that all market participants need to consider when facing settlement cycle changes. Practical recommendations to prepare for T+1 readiness will be offered. Readers can expect insights into the motivations driving the accelerated settlement movement, the key changes unfolding in major markets and the potential effects on international markets, ensuring preparedness for the forthcoming T+1 settlement era.

Keywords: accelerated settlement, settlement cycle, trade date + 2 (T+2), trade date + 1 (T+1), regulation



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INTRODUCTION

In October 2022, a paper was published in this journal which examined the growing discussion around a 'shortened settlement cycle' (from trade date + 2 [T+2] to trade date + 1 [T+1]). Since then, this movement has gained tremendous momentum, now referred to as 'accelerated settlement', and concrete steps have been taken in this direction.

In the US market, the U.S. Securities and Exchange Commission (SEC) has confirmed a T+1 compliance date of 28th May, 2024.¹ The Canadian Capital Markets Association, along with the region's regulator, aims to align with the US by setting a go-live date of 27th May, 2024.² Across the Atlantic, His Majesty's Treasury has established an Accelerated Settlement Taskforce to explore faster settlement of financial trades.³ Additionally, the Association for Financial Markets in Europe (AFME) has formed an industry taskforce to assess the desirability of

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transitioning to T+1 settlement and the necessary changes to facilitate such a transition.

This paper will delve into the following aspects:

- The rationale behind multiple markets simultaneously implementing this change;
- Key changes being introduced in the US market;
- The impact of these changes on market participants in the US;
- Ramifications of the US change for international markets;
- Prospects of other markets, with emphasis on the UK and Europe;
- Important considerations for all market participants facing settlement cycle changes;
- Recommendations for market participants to prepare for T+1 readiness.

WHY ARE MULTIPLE MARKETS TRANSITIONING CONCURRENTLY?

Historically, the US and Canadian markets have moved in sync when changes have been proposed to their respective settlement cycles. Keith Evans, executive director of the Canadian Capital Markets Association (CCMA), highlights the need for alignment due to significant cross-border trading and critical links between the two markets' infrastructures. Moving independently would necessitate extensive changes to back and middle office systems and processes.⁴ As a result, the CCMA has confirmed a date one day ahead of the US market change, accounting for the Memorial Day holiday in the US.⁵

As half of the trading volume in the Mexican market involves foreign securities, mostly US equities and exchange-traded funds (ETFs), Mexico will likely align with North America. The Mexican Central Securities Depository (Indeval) moved to a T+2 settlement cycle together with the US and Canada in 2017.⁶ In July 2023, the

Brazilian market also confirmed that they are considering moving to a T+1 settlement cycle along with their North American counterparts.

How has the timing of the changes been received?

At time of writing, there is less than a year remaining before the Securities Industry and Financial Markets Association's clocks run out.⁷ Initially, the announcement of the SEC's adoption deadline, chaired by Gary Gensler, met with some concern from market participants who were hoping for a rumoured September 2024 deadline. Ultimately, the earlier date passed by a 3–2 vote, with debates about the feasibility of an earlier go-live.⁸

Given the immense size of the US market (the largest in equities and fixed income) and its extensive interactions with other markets, there is considerable work to be done in the region.⁹ May 2024 poses a challenging timeline for any market to implement such a significant change, particularly for Canadian participants. The Canadian Depository for Securities (CDS) is already amid significant infrastructure updates, including replacing clearing and settlement systems, with an impact on corporate actions handling.¹⁰

This is a significant burden on financial institutions operating in the region, and allocating resources to these two major initiatives may prove onerous.

Furthermore, unlike in the US, where the SEC quickly followed the confirmation of the intended go-live date with clarification of rules and expectations, the Canadian regulators had yet to provide regulatory certainty by mid-June 2023.¹¹ This is despite the Canadian Securities Administrators (CSA) having started publishing proposed rule amendments in December 2022 to pave the way for T+1 settlement.¹²

Delays in clarification leave market participants facing two potentially unpalatable options:

- (1) Begin preparing for T+1 based on assumptions of regulatory intent and risk reworking if those assumptions prove inaccurate;
- (2) Delay preparations in anticipation of regulatory certainty and eat into an already tight timeframe.

The Mexican regulators have yet to confirm any intention to move to an accelerated settlement cycle in 2024, which risks creating a highly pressured turnaround for market participants should regulators ultimately decide to follow the precedent set in 2017 and reduce their settlement cycle in line with the US.

NORTH AMERICA FOCUS

T+1 settlement will be applied to multiple financial instruments, including equities, corporate bonds, municipal bonds, unit investment trusts and any instruments comprised of these securities.¹⁴

The SEC has confirmed several changes to cut-off times with the implementation of a T+1 cycle (see Figure 1). The affirmation cut-off time will be pulled forward from 11.30 am on SD-1 to 9.00 pm on T+0 to ensure same-day matching, allowing transactions to be processed and ready for T+1 settlement.¹⁵ To comply with this compressed timeline, buy-side organisations are recommended to allocate trades intraday, with final allocations submitted before 7.00 pm on T+0.¹⁶

There is also heightened risk to ancillary processes such as foreign exchange (FX) and securities lending, with little consideration given to how these processes will be handled in a T+1 world. Organisations trading FX should ensure sufficient funding is in place to facilitate same-day settlement, which may require pre-funding trades in US\$ to cover these funding requirements and comply with the compressed US settlement deadlines.¹⁷ Regarding securities

lending, the regulator advises changes to recall processes to an 11.59 pm T+0 deadline.¹⁸ This significantly reduces the processing time for both lenders and borrowers, requiring behavioural changes from all parties involved to ensure a smooth process for T+1 settlement.

What changes are being introduced by the SEC?

The SEC has published its final rules amending Rule 15c6-1 under the Securities Exchange Act of 1934 ('Exchange Act') to shorten the standard settlement cycle for broker-dealer transactions to T+1. This confirms the changes to the settlement for specific securities instruments along with other requirements that have the potential to be onerous. On those amendments:¹⁹

- The rule prohibits broker-dealers from entering a contract for the purchase or sale of a security that provides for payment of funds and delivery of securities later than the first business day after the date of the contract unless otherwise agreed upon by the parties;
- The rule applies to all securities, except for exempted securities, government securities, municipal securities, commercial paper, bankers' acceptances and commercial bills;
- Security-based swaps are excluded from the requirements of the rule;
- The standard settlement cycle for firm commitment offerings priced after 4.30 pm Eastern Time (ET) is shortened from T+4 to T+2;
- The remaining paragraphs of the rule, which provide exceptions for limited partnership interests and securities exempted by order, are not substantively amended;
- Broker-dealers, including small entities, may need to make changes to their business operations and incur costs to adapt to the T+1 environment, including changes

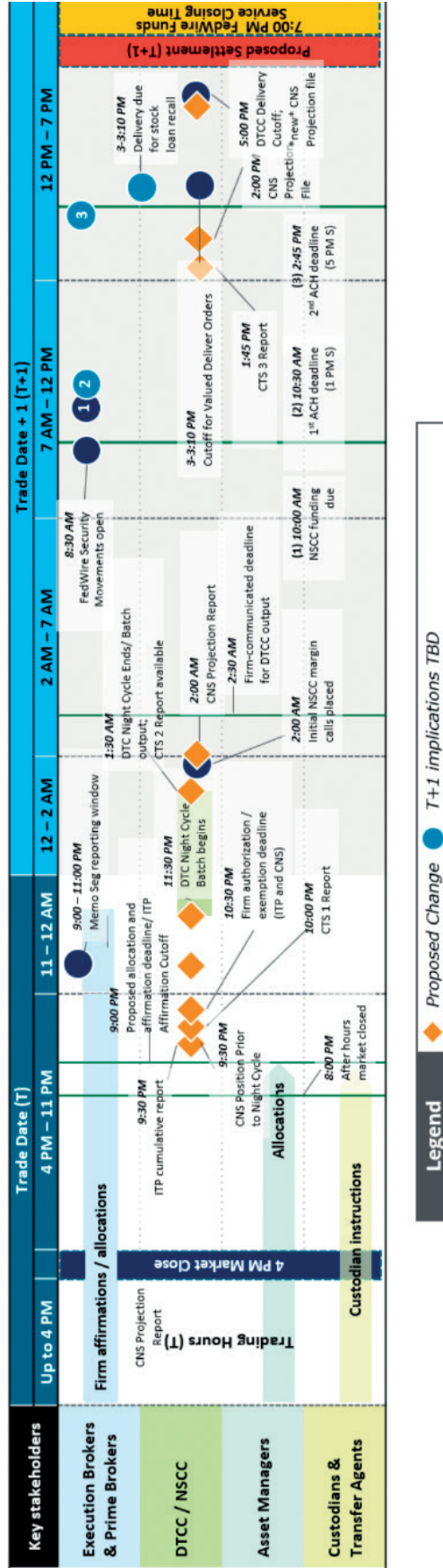


Figure 1 T+1 trade processing flow chart¹³

to business practices, computer systems and the deployment of new technology solutions;

- Broker-dealers may need to test changes to systems, operations, policies and procedures to operate in a T+1 environment;
- Broker-dealers serving retail customers may need to educate their customers about the shorter settlement cycle;
- Shortening the settlement cycle could affect compliance with existing regulatory obligations, such as the closeout of fail-to-deliver positions under Rule 204 of Regulation SHO;
- The amendment also shortens the timeframe for broker-dealers to comply with the requirement under Exchange Act Rule 10b-10 to provide written confirmations before settlement;
- The amendment reduces the number of days broker-dealers have to obtain possession of customer securities before being required to close out a customer transaction under Exchange Act Rule 15c3-3(m).

Taking one example, the allocation/confirmation process now needs to conclude by 21.00 Eastern Standard Time (EST) on T0 'or as soon as technologically possible but no later than trade date'. This puts significant pressure on market participants based in the US, and even more pressure on organisations operating in other time zones.

In the context of the regulator's focus on the settlement of 'true' securities trades, it is important to note that certain linked processes have not been fully addressed. One such process is the FX life cycle, which still operates on a T+1 settlement cycle. This misalignment between securities and foreign exchange settlement timelines could introduce challenges and complexities for market participants. Additionally, there have been limited discussions regarding the timings for securities on loan recall, which is another aspect that needs consideration. These interconnected processes need to be carefully

evaluated and addressed to ensure a smooth and efficient settlement ecosystem.

PROJECTED POSITIVE IMPACT

Extensive discussions have taken place throughout the industry regarding the perceived benefits associated with accelerating the settlement cycle. Regulatory authorities and vocal proponents of this change are primarily focused on these rationales.

One significant advantage expected from this acceleration is the reduction of counterparty risk. By shortening the time between trade execution and settlement, market participants will have less exposure to potential default or insolvency of counterparties. Consequently, overall market stability is expected to improve.

Another anticipated benefit is the increased market efficiency that comes with the ability to deploy capital more quickly. By freeing up funds for new investment opportunities within a shorter timeframe, participants can enhance their liquidity management and reduce their reliance on short-term borrowing or leveraging.

Furthermore, the accelerated settlement cycle is expected to enhance risk management. Market disruptions and volatility will be contained within single-day settlement transactions, mitigating the ripple effect observed in the current two-day cycle.

These perceived advantages contribute to the rationale behind the push for an accelerated settlement cycle, with industry stakeholders recognising the potential positive impact on counterparty risk, market efficiency, liquidity management and risk mitigation.

CHALLENGES AND HOW MARKET PARTICIPANTS SHOULD BE WORKING TO OVERCOME THEM

Realising these benefits is not without its challenges, and market participants must

navigate a potentially complex path while investing significant effort to ensure that the benefits outweigh any potential pitfalls.

Transitioning to an accelerated settlement cycle presents numerous hurdles that market participants need to overcome. With the implementation date for the change in the US and Canada less than a year away, organisations must maintain a laser focus on identifying areas requiring critical improvements and should already be actively working towards implementing them. This proactive approach is crucial to ensuring a smooth transition and maximising the advantages associated with the accelerated settlement cycle.

People and technology

Organisations may discover the need for technological infrastructure upgrades and operational adjustments as they transition to the accelerated settlement cycle. These changes entail costs and require resource allocation to upgrade systems, enhance risk management capabilities and adapt processes to comply with the new settlement timeframe. Smaller market participants may face financial constraints in meeting these requirements, potentially leading to consolidation or market exits.

At present, there is a risk that organisations that have not yet initiated technology enhancements have left it too late. It is crucial to conduct a thorough analysis of the current status to identify areas that require improvement. This allows organisations to focus technology enhancements on specific areas where increased capabilities are needed, such as straight-through processing, timely matching, intraday batches or reducing unnecessary query traffic.

Without progress in technology advancements within operational environments, the default response often involves reinforcing resources. Organisations are already considering expanding operational teams, establishing new locations or outposts (eg

West Coast US offices to extend coverage hours) and exploring the possibility of introducing ‘night shifts’ for operational teams. This approach, however, both presents cost implications and risks becoming an unsustainable long-term model.

To move away from investing time, money and effort in non-value-added or repetitive processes, it seems suboptimal to not fully leverage the forthcoming acceleration of the settlement cycle. Instead, organisations should seize the opportunity to create a more engaging and dynamic workload for all operational staff members, rather than focusing on repetitive and preventable actions. This approach not only addresses cost drivers but also promotes a more efficient and fulfilling operational environment.

Operational processing

To effectively prepare for the accelerated settlement in the US and Canada, market participants need to focus on optimising various operational processing areas.²⁰ A significant aspect to address is the affirmation rate, as currently only 68 per cent of US trades are affirmed on T0, leaving a 32 per cent gap that must be resolved by May 2024.²¹

Another crucial consideration is the potential increase in fail rates once the accelerated settlement cycle takes effect. With less time for manual investigation and prevention of fails, failure to optimise technology stacks and processes will have a severe impact on timely settlement rates. Organisations need to assess not only the processes directly linked to trade processing but also the ancillary processes surrounding trade flows.

One such area is the impact on FX, where currency conversions are required for trade settlement. Notably, the SEC has not initiated any changes to the FX life cycle, necessitating careful evaluation of FX flow implications.²² Organisations may need to make changes such as holding long balances in US\$, even if it was not part of their previous strategy. At a minimum, adequate

funding must be in place at the start of the day on T+1, leading to a shift in the post-trade process and affecting FX and cash management teams.²³

Additionally, participants involved in securities lending and securities financing activities should closely review their operations.²⁴ An accelerated settlement cycle will require a faster recall and return process for stock on loan to ensure timely fulfilment of sales. Considering that a significant portion of trade fails (up to 70 per cent) are due to a lack of available inventory, this area can become a notable pressure point.²⁵

These challenges are not exclusive to sell-side or custodian organisations. Buy-side firms must also review their operational setup and processes, particularly when client inefficiencies have an impact on their service providers. The volume of cancelled and rebooked trades flowing through the market is receiving increased attention, as habitual or routine cancel/rebooks add to the workload and reduce the available time for successful settlement within the allocated window.

A key change already underway is data-driven collaboration across all market participants. Comprehensive real-time data sets for each step of the trade life cycle enable enhanced transparency, allowing participants to identify and resolve discrepancies and issues continuously. This proactive approach minimises the need for queries, which generate substantial e-mail traffic across the market.

Liquidity and volatility

While the main message behind T+1 is that an accelerated settlement cycle will improve market efficiency, it is important to acknowledge the potential risks and challenges that may arise. One such risk is the possibility of liquidity constraints faced by certain market participants. With less time for securing funding, smaller participants may face difficulties.

The shortened settlement timeframe can also contribute to moments of increased market volatility. Participants will have less time to react and adjust their positions, potentially leading to heightened price fluctuations. This faster decision-making cycle may prompt investors to trade more frequently, further amplifying price volatility.

To navigate these changes successfully, organisations should already be assessing their trading strategies. It is crucial to identify and account for the new considerations that arise once the settlement cycle is reduced to a single day. By proactively preparing and adjusting their approach, market participants can better adapt to the evolving landscape and optimise their trading activities.

IMPACT ON MARKET PARTICIPANTS OUTSIDE OF NORTH AMERICA

The transition to T+1 settlement in the US and Canada will not only affect domestic markets but also have implications for international markets and cross-border transactions. US and Canadian participants must communicate and prepare with their out-of-region branches, clients, providers and counterparties to ensure a smooth transition.

For markets outside the US and Canada, there are several challenges that regional organisations and offices should begin preparing for:

- *Time zone disparity:* As the US moves to T+1 settlement while other markets maintain a longer settlement cycle, a time zone disparity will emerge. Market participants in different regions will need to adjust their trading and settlement practices to effectively manage the time difference. This may require new adoption or heightened use of hyper-efficient trade matching models.²⁶ Swift execution of trade confirmations, efficient matching and reconciliation to identify and resolve discrepancies will be critical

to minimise exposure to market fluctuations. Additionally, stock lending and collateral process timings will become increasingly significant as, for example, delayed recalls will be even more likely to result in a failure to deliver and increase exposure. Organisations based outside North America may consider extending operational hours of support. This not only has the potential to introduce logistical complexity but risks the creation of an environment where operational staff are working antisocial shift patterns and longer hours, risking deterioration in employee satisfaction and possibly even increased attrition;

- *Liquidity impact:* The shorter settlement cycle in the US may affect liquidity dynamics in other markets. Foreign investors and participants with exposure to US securities will need to adjust their liquidity management strategies to align with the new settlement timeframe. This adjustment could potentially affect trading volumes, with fewer trades being executed. Overall market liquidity could be affected as participants strive to maintain performance in a transformed settlement landscape, with fluctuations in bid-ask spreads potentially compounding this challenge;
- *Currency risk:* Cross-border transactions between the US and other markets may face increased currency risk due to the shorter settlement cycle. Fluctuations in exchange rates during the shortened settlement period can have an impact on the profitability and risk exposure of these trades. This is particularly true in scenarios when exchange rates are volatile, as these rapid changes will heighten currency exposure. Market participants will need to ensure that currency risk is even more closely monitored, and review associated operational processes, potentially implementing revised strategic hedging strategies;

- *Operational challenges:* Seamless handovers between regions become increasingly important to ensure smooth and timely processing. Organisations without representation through the end of the US working day may face unique challenges in coordinating operations and processes across different time zones. The coordination and execution of cross-border operations become more intricate, necessitating clear planning and defined roles and responsibilities. Ensuring the timely exchange of critical information between regions will be key to clean handovers of open transactions in order to expedite settlement. Failure to introduce or reinforce clean communication channels, effective handoffs and agreed responsibilities for books of work handed over between regions will result in delays, operational inefficiencies and increased risk. This challenge is compounded for organisations where technology infrastructure and access to data is not consistent across regions, so it is important to ensure that equivalence in data access is in place to support the regional teams.

What should participants based outside of the US and Canada consider?

The transition to T+1 settlement in the US and Canada demands the attention of investors and market participants worldwide. It is crucial for any organisation actively involved in trading within the US market to familiarise themselves with the proposed matching and settlement practices and make necessary adjustments to their trading and operational strategies.

Apart from the considerations mentioned earlier, this includes providing training and raising awareness among operational teams and service providers' clients. It is of utmost importance that no market is ill-prepared, considering that 30–40 per cent of

investments in the US originate from overseas, with a significant portion coming from Japan. Given the 13 hour time difference between Japan and New York, it serves as a clear example of a region that will experience a substantial impact due to changes happening half a world away.

It should be the responsibility of all US and Canadian market participants to proactively bring their counterparts, clients and providers from all regions along on this journey. By ensuring that this change, its total impact and nuances are clearly understood at this point, it is more likely that all participants will be ready to successfully meet the challenge come May 2024.

For participants outside the US and Canada, reviewing operating models is essential, with a specific focus on ensuring T0 matching in the EST time zone and preventing unmatched or mismatched transactions from carrying over to the next day. Additionally, efficient processing for executing US trades from other regions becomes crucial to ensure that funding is in place in the desired currency.

Which markets may move next?

The Accelerated Settlement Taskforce established by His Majesty's Treasury in the UK is gaining significant momentum, with industry experts joining forces to collectively address the agreed objectives. The taskforce recognises the importance of analysing the 'ancillary' processes mentioned earlier as areas of risk and uncertainty associated with the North American change. This comprehensive analysis aims to evaluate not only the direct impact of an accelerated settlement cycle on the UK market but also its indirect effects on funding, currency and cross-border activities.

By the end of 2023, the taskforce is expected to provide a recommendation on whether, when and how the UK should transition to an accelerated settlement cycle. Since the UK, like the US, operates in a

single clearer market, this change is likely to be more straightforward compared to European market participants, who face a more complex ecosystem consisting of multiple central securities depositories (CSDs), legal frameworks and market infrastructure providers.²⁷ In Europe, a dedicated taskforce established by AFME is working towards determining if Europe should adopt a shorter settlement cycle and defining the approach and timeline for such a transition.²⁸

Despite the complexity involved in implementing such changes and the cautious approach taken by these markets, it is evident that markets embracing an accelerated settlement cycle will be perceived as more advanced, holding a competitive advantage over regions like the UK and Europe that still operate on a T+2 cycle.²⁹ This situation is unlikely to be desirable in the long term.

In Europe, the potential settlement cycle changes are being approached cautiously, particularly considering the upcoming Central Securities Depositories Regulation (CSDR) refit and the ongoing 'dialogue'.³⁰ Concerns over rising fail rates in the region also contribute to the careful consideration of settlement cycle adjustments.³¹

Market participants in regions not yet committed to settlement cycle acceleration are now evaluating their next steps amid financial uncertainty, which has been influenced by recent events such as the collapse of Silicon Valley Bank³² and the bailout of Credit Suisse,³³ as well as the ongoing conflict in Ukraine. These events, coupled with rising inflation and higher interest rates, have raised concerns; however, the drive to avoid being left behind has sparked discussions about potential fragmentation across Europe. Some market participants or regions may consider unilaterally changing their settlement cycle rather than waiting for the entire bloc to be ready, potentially adding further confusion and complexity.

WHAT DOES IT ALL MEAN AND WHAT SHOULD MARKET PARTICIPANTS BE DOING?

In summary, significant changes are on the horizon, and market participants worldwide must recognise that the impending settlement cycle shift in North America will affect all participants engaged in trading activities in the US and Canada.

At present, organisations actively trading in North America should already have a clear understanding of the required technology changes and enhancements and should have these initiatives underway. All participants must prepare and implement the necessary changes and enhancements to ensure readiness for the upcoming settlement cycle transition.

To support organisations in their preparations, a wealth of market guidance and centrally created documentation has been made available, including resources such as the SIFMA (Securities Industry and Financial Markets Association) ‘T+1 Securities Settlement Industry Implementation Playbook’³⁴ and the CCMA’s ‘T+1 Industry Test Plan Approach’.³⁵

Internal preparation for organisations should extend to the following areas:

- (1) *Infrastructure and technology*: Ensure that infrastructure and technology systems can support T+1 settlement. This involves having robust and reliable trading platforms, transaction processing systems and back-office operations that can handle the increased settlement speed. Market participants should leverage available technologies, such as AccessFintech’s Synergy Solution, which has demonstrated support in reducing fail rates. Two Tier 1 banks reported 30 per cent reduction in fail rate over a 12-month period using real-time data and workflow collaboration made possible by using the Synergy Network;³⁶
- (2) *Regulatory compliance*: Stay updated with regulatory requirements related to T+1 settlement to ensure understanding and compliance;
- (3) *Risk management*: Review and enhance risk management policies and procedures to accommodate the accelerated settlement cycle. This includes evaluating credit risk, market risk and operational risk associated with T+1 settlement and implementing the necessary mechanisms to effectively manage and mitigate these risks;
- (4) *Trade confirmation and matching*: Implement automated trade confirmation and matching systems to ensure accurate and timely matching of trades;
- (5) *Straight-through processing (STP)*: Enhance STP capabilities to automate as much of the trade life cycle, from execution to settlement, as possible. The focus should be placed on eliminating manual intervention, reducing operational costs and increasing efficiency within the T+1 timeframe;
- (6) *Collateral management*: Review collateral management processes to ensure consistent availability of sufficient collateral for T+1 settlement. This review should encompass efficient collateral tracking, monitoring and valuation mechanisms to manage potential risks associated with collateral requirements;
- (7) *Communication and coordination*: Share trade life cycle data and insights in real time with all affected participants and parties involved in the trade. Reducing unstructured and repetitive communication will streamline processes and prevent unnecessary distractions;
- (8) *Staff training and education*: Provide information and insights to all employees affected by the settlement cycle change to ensure their understanding of the requirements and implications of T+1 settlement in the

US and Canada. Retraining may be necessary to change behaviours that currently result in manual efforts and rework, shifting focus from managing fails to preventing them;

- (9) *Testing and simulation*: Conduct thorough testing and simulations of the T+1 settlement process to identify and address any operational or technical issues. Utilise best practice templates from organisations such as SIFMA or CCMA, while also drawing from test scripts used during previous settlement cycle changes, incorporating lessons learned;
- (10) *Continuous monitoring and evaluation*: Introduce monitoring mechanisms to continuously assess the effectiveness of T+1 settlement processes. These mechanisms can be implemented ahead of the transition to track readiness and post-go-live performance metrics, identify areas for improvement and make necessary adjustments to optimise processes.

By focusing on these key areas, market participants can proactively prepare for the upcoming settlement cycle changes, mitigate risks and ensure a smooth transition to the T+1 settlement cycle.

Where does data highlight opportunities for efficiency and improved behaviours?

In June 2023, AccessFintech conducted thorough data analysis (see Figure 2) on a significant portion of the global trade activity passing through its Synergy Network, accounting for about one-third of all trades worldwide. This analysis revealed areas that require improvement, not only in preparation for the North American settlement cycle change scheduled for May 2024 but also to address potential future changes of a similar nature across global markets.

One intriguing finding relates to the varying levels of timely matching and

settlement rates across different regions. EMEA markets, in particular, have a substantial gap to close in order to achieve successful T+1 settlement. In contrast, the APAC regions are experiencing remarkable success in achieving prompt settlement rates. According to informal feedback from stakeholders in the area, a considerable manual effort during the matching window plays a crucial role in attaining such a resilient settlement rate.

With a shorter settlement cycle in place, there is less time available for manual investigations, which raises the risk of escalating fail rates. Further informal feedback indicates that organisations are gearing up for a substantial increase in fail rates starting from June 2024, potentially surpassing 25 per cent. This increase could pose severe challenges for operational teams, affecting locked-up capital, funding costs and client service quality.

From the total global transaction volume, the examination of T0 trades indicates that approximately 12 per cent necessitate manual intervention. This intervention is primarily related to addressing place of settlement (PSET) adjustments or resolving economic discrepancies stemming from financial, directional or date-related issues. The sustainability of this level of manual intervention is questionable in a post T+1 world, especially considering that these economic discrepancies contribute to around 20–30 per cent of trade failures. The remaining failures are associated with SSI discrepancies and inventory challenges, each of which presents significant workflow and cost implications that could escalate within the confines of an accelerated settlement cycle.

Understanding these patterns and themes and addressing repeated breakdowns in straight-through processing is crucial not only for meeting the challenge of T+1 settlement in North America but also for effectively handling changes discussed across global markets.



Figure 2 AccessFintech trade data analysis³⁷

CONCLUSION

With the largest market in the world and their northern neighbours committed to accelerating their trade settlement within the next year, participants in these markets face a challenging and complex transition. Yet by preparing appropriately, thinking beyond regulatory requirements and fostering collaboration, all market participants can successfully transition to a T+1 cycle and reap the anticipated benefits.

Furthermore, adopting a measured and thoughtful approach while considering a similar change in other regions, and learning from the North American shift, will provide participants in the UK and European markets with the opportunity for similar success. Although the road ahead may be long, it can be navigated successfully.

As we move towards this transformative change, it is crucial to consider what the future holds. By predicting the future

and envisioning how the world will look post-transition, we can better anticipate challenges and opportunities. This forward-looking perspective is especially pertinent given the imminent publication deadline and the rapidly approaching implementation date.

Wishing everyone good luck as we embark on this journey of change and progress.

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