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Accelerated Settlement: evaluating preparations for T+1 in the US and Canada

Moderator

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Panellists

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Ron Landry, Head of Product and Canadian ETF Services, **CIBC Mellon**

Mike Norwood, Director, Global Trading Product Owner, **EquiLend**

Introduction

Bob Currie: Welcome to the Asset Servicing Times panel discussion on Accelerated Settlement taking place here at Sibos in Toronto.

This examines the US and Canadian transition to T+1 securities settlement scheduled for May 2024, with Canada scheduled to begin trading using next-day settlement on 27 May and the US doing so one day later, after the Memorial Day public holiday, on the 28th.

In proposing the T+1 project, market authorities have indicated that the shorter T+1 settlement cycle will reduce credit risk, market risk and liquidity risks associated with settlement failure.

By shortening credit exposure over the settlement period, this is expected to lower margin costs, improve mobility of liquidity and collateral, and potentially reduce the capital costs of trading.

Additionally, this may drive further automation of the transaction lifecycle, encouraging infrastructure modernisation and forcing those firms that are still hanging on to manual processing and communication to upgrade their workflow — including wider adoption of electronic trade matching, confirmation and allocation systems.

That appears to have been one lesson from India's experience with T+1 migration — which was managed via a phased migration beginning with less liquid securities in February 2022 and moving progressively to more liquid names, culminating on 27 January 2023.

One primary message from India's experience was that it was sink or swim for those firms still using manual communication and paper-driven processes — to paraphrase French economist Michel Aglietta, T+1 has forced firms to 'adapt or perish'.

And for those firms making it to the other side, it has been necessary to adapt their settlement culture and behaviour, as well as upgrading their technology.

We will examine the transition proposal in the US and Canada in more detail and in comparative context, examining how this will impact different types of market participants and different transaction types.

To open, let's look more closely at the rationale for T+1 and where this will have the greatest impact. How will this most affect your firm and the clients you support?

Rebekah Flohr: You touched in your question on the key priority, which is in helping the clients to prepare for the T+1 transition. We have a big programme running across the organisation to be ready for T+1. This is not just custody but embraces greater securities services, including securities lending, and we are working with our colleagues in Global Markets and other groups across the firm.

We provide securities services to a global customer base and T+1 will raise questions in terms of staffing, technology and changing operational processes and culture, particularly when supporting the needs of cross-border investors trading in the US market. So the key word in your question was 'clients' and, for Citi, the primary focus is on how we can help clients to prepare for accelerated settlement, engaging consultants where necessary to assist this process.

Sudha Datta: Some client groups are really behind in their technology preparations — some asset management firms and asset owners, for example, continue to rely heavily on manual touch points in their settlement activities.

The transition to T+1 settlement will force firms across the industry to undertake a wholesale review of their operational process, compelling them to improve automation rates and to modernise their settlement

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processes. In practice, the May 2024 transition is only a short distance away and firms need to act. This time will pass very quickly.

Mike Norwood: The securities lending and financing sector brings specific challenges since it is largely an over-the-counter market. EquiLend currently supports clients' lending and borrowing activities 23.5 hours per day across six days of the week, in terms of systems and operational readiness, facilitating global trading around the clock.

For securities financing transactions (SFTs) that are actively traded on EquiLend's NGT platform, the bulk of this volume already settles on a T+0 basis. So in preparing the US and Canadian markets for T+1, we are confident that the tools are available to meet this accelerated settlement timeframe.

We do still hear a range of concerns from across the market. What will T+1 do to our operational processes? Are we accurate enough in terms of matching rates? Will we have enough time to source liquidity to cover short positions?

But the tools are available to manage these challenges. In this environment, firms will come under ever greater pressure to address their manual processes — and T+1 settlement will ramp up the momentum that has already been established through implementation of the Securities Financing Transactions Regulation (SFTR), the Settlement Discipline Regime component of the Central Securities Depositories Regulation (CSDR), along with the proposed SEC Rule 10c-1.

Firms that continue to apply a lot of manual touch points across the settlement lifecycle will need to reconsider how they structure their workflow. In contrast, the firms that are best placed are those that have already addressed many of these operational risks and bottlenecks in response to these earlier regulatory initiatives.

Ron Landry: The challenge is particularly in getting clients 'technology ready' for the transition to T+1. As a custodian, we are prepared and largely ready to go. But some firms across the industry are lagging in their preparations and we will be spending the next few months providing education around what is required.

Many of the larger asset management and asset owner clients are already supporting electronic settlement communication, via the Swift network, via vendor-based order management and workflow solutions, or using our own internal trade capture tools.

But, like other custodians, we still have some clients that prefer to send settlement instructions by email or fax. That needs to go away. These clients genuinely need to embrace effective technology solutions to help them to manage this transition. If they do not, they are likely to face some real challenges.

Is the panel's feeling that there is a sizeable cohort of firms that are still not on track with the T+1 migration schedule?

Flohr: There are clear geographical challenges. The transition demands a full review of technology and any manual touch points — and there are certainly a lot of these still out there.

Migration to next-day settlement demands changes in behaviour. It also raises questions around staffing. For international clients, for example, the DTCC's 21:00 EST affirmation deadline falls after midnight in Europe and the Middle East and it occurs at the start of the next working day in the Asia-Pacific timezone. So for trades that need to be affirmed on a Friday evening in the US market, for example, staff will need to be monitoring the status of these settlement positions on a Saturday morning in Asia. Firms need to be planning carefully for how they adapt their processes and operational behaviour to make this happen, taking into account relevant employment legislation across their global markets.

Although clients are actively thinking about these considerations, many still have a lot to overcome before they are ready. At Citi, we are engaged in a major communication initiative with our clients to ensure they are aware of the key implications and preparing effectively to make this work.

Learning from the past

This is not the first transition to a shorter settlement cycle that we have witnessed in our working careers. The European Union migrated to T+2 equities settlement in 2014 in the first tranche of the Central Securities Depositories Regulation. The US migrated to T+2 in 2017. To what extent did those migration efforts create pressure to strip out manual inefficiency?

Landry: The transition to T+2 did not have a big impact in forcing firms to eliminate manual interventions. In transitioning from T+3 to T+2, firms still had a day to work with to ensure that trades settled on time. For this

reason, settlement culture did not substantially change and some firms postponed the need to upgrade processes that should be automated.

In transitioning to T+1, firms will need to change their operational practices as well as upgrading their technology. Offices at many buy-side firms have traditionally closed at 17:00, while settlement issues often tend to arise after hours. If investment companies maintain these same working hours in a T+1 environment, their operations teams may not identify potential settlement breaks until the following morning, leaving one working day and no overnight to take remedial action.

In short, with only 6-8 hours to deal with any settlement issues in a T+1 environment, automation will play a prominent part in ensuring that the transition to T+1 is successful.

Flohr: Looking retrospectively, it is evident that some firms managed the move to T+2 by allocating extra staff to certain processes, rather than by upgrading their technology and improving levels of automation across their settlement workflow. With T+1 migration, that approach — throwing more staff at the problem — becomes close to impossible.

Datta: This requires a change of culture. Sending trade confirmations by email has become a habit in some organisations. So there is likely to be resistance to change from certain parties that have become accustomed to working with these inefficient post-trade practices.

The challenge is not the same for every type of firm. For a large Tier 1 asset servicer, the technology investment may be large but manageable. But for a small investment management company, it is a huge undertaking to install new systems to meet this transition requirement.

Initially this will be an expensive migration — and it will be challenging, particularly for smaller investment firms, to find the resources to upgrade their technology and settlement processes. But, relatively quickly, these firms will experience the benefit of this transition in terms of greater automation and reduced operational overheads.

Norwood: That is the natural order of things. The longer that a firm waits to make these transformative technology changes, the longer that it will need to normalise its data and to establish the data quality required to support process automation. Typically, the sooner that a firm moves to digital, the cheaper and more efficient its operational processes will become. For those that delay, it will be harder to change established institutional behaviour and to force out ageing and inefficient trade processes.

This is also not the first time that the US has embarked on a transition to next-day securities settlement. In October 2001, the Securities Industry Association pushed back the release date for T+1 implementation because the industry did not feel that it was ready — and it has taken more than two decades to be actioned. Has the industry changed sufficiently to be confident of a successful T+1 migration in 2024?

Flohr: The transition to T+1 scheduled for May 2024 is a little

May 2024 is not far away. I have been telling clients to start early. If you are only starting now, you are already behind.

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different because this is now being driven by the regulators, by the US Securities and Exchange Commission and the Canadian Securities Administrators. In contrast, in 2001 the transition to T+1 equities settlement was driven principally by the industry. Now firms have no choice but to commit to the transition approaching next May.

Landry: Technology has also advanced a long way since 2001. The industry is better equipped than it was 20 years ago in terms of adoption of technology and electronic messaging standards. If an asset manager does not have suitable technology to manage its portfolio, and the associated investment operations, then regulators will be taking a close look at that firm's operational and risk management practices.

The pandemic also changed things greatly. Trading, operations and risk management teams were forced, at short notice, to move to remote working and to operate without access to fax machines, to printers and to other mechanisms that sustained manual workflow. This helped to displace outdated practices.

However, there are still some stragglers that are holding back and think that they can find manual workarounds to manage their settlement commitments in a T+1 environment.

Transition priorities

Let's look more closely at the steps that firms need to set in place to move to a T+1 settlement regime. We have already mentioned electronic trade matching, confirmation and affirmation. DTCC has an affirmation cutoff of 21:00 on trade date, with allocations to be completed by 19:00 on trade date. What steps are needed to operate efficiently in this environment?

Flohr: We spoke about the need to review any manual processes. Firms need to familiarise themselves with the range of automated tools that are available — automated FX solutions, for example, and solutions available to provide automation across the trade lifecycle for securities lending and financing transactions. In the US market, DTCC, as a market infrastructure company, offers a number of tools that will facilitate accelerated settlement — and Citi and other leading custodians also offer a range of solutions. Firms are likely to draw on a combination of these solutions in their move to readiness.

Norwood: Even if firms are using an automated process, we need to look more closely at whether this is real-time or batch driven. Working with 30-minute batch processing in a T+2 environment may not be a major problem. But on moving to next-day settlement, batch cycles will present a greater challenge in ensuring that settlement instructions are matched and that required securities, funds or collateral are in position to settle.

For securities lending trades, this consideration is attracting a lot of attention for recalls in particular. Firms will be looking carefully at how close to real-time notifications are coming back from the investment manager. At how regularly these are being processed. And at how soon the firm can compare these against its outstanding inventory to identify whether it needs to issue a recall.

For highly-liquid loan securities, the GC names, the industry can be fairly confident that securities will come back on time when they are recalled. But there may be problems with recalling hard-to-borrow securities where there is a high level of short interest. These are largely the same problems that the industry is facing currently, but the temperature around these recalls is likely to rise with the move to next-day settlement.

A recent ISITC Europe report has highlighted that the challenge around recalls may make some asset owners more reluctant to lend their stock. Is that a genuine concern?

Norwood: If lenders find it necessary to hold back inventory and do not feel that they can lend the full position that they wish to lend, this changes the economics of their lending strategy.

This is not the first time we have confronted concerns that a regulatory change may impact loan supply. Some commentators speculated that the settlement discipline regime under CSDR may discourage lending for example. There were also potential concerns around Agency Lender Disclosure (ALD).

On balance, we expect that lenders will stay in the market and will continue to lend. Securities lending provides an attractive source of risk-adjusted return and technology is available to help them to manage any associated risks. As long as their service providers offer a high-level of automation, we believe that many lenders will be confident that these risks are well managed.

Flohr: This is likely to be similar to a number of regulatory changes and industry transitions that we have witnessed historically where there

has been an adjustment period, with a temporary rise in settlement fail rates, and then this has normalised. This will cause friction and concern initially, but the market is likely to adapt relatively quickly.

Landry: In response, we are encouraging clients to report their trades earlier and more often. Some fund managers in the current T+2 environment tend to sit on their trades until the end of the day, then to run these trades through their systems and to submit their settlement instructions the following morning.

In the T+1 settlement environment in Canada, counterparties are required to be matched by 03:59 on T+1. To meet this, we are requiring clients to have trades in by 03:00 on T+1. By association, the sooner that the firm gets its trades in, the easier it is to manage recalls.

We have been doing this for exchange-traded funds (ETFs) for some time. With ETF trading, settlement is typically in-kind against a basket of securities and so, from a lending perspective, you will typically need to maintain a buffer. Firms will increasingly start to set natural buffers in place to manage their settlement risk as they move to T+1. As technology solutions improve, moving settlement gradually closer to real-time and enabling more real-time information and analytics, this will further reduce settlement risk.

Datta: Mike has raised the point about batch processing versus real-time processing and this demands a huge change of behaviour. In the batch process, as we have noted, clients may wait until the last minute to send their instructions. In a T+1 environment, firms will be forced to change this mindset and that will be positive for the industry.

For cross-border transactions into the US, there will also be a crucial need to re-examine foreign exchange settlement and for international firms to ensure they can align their FX settlement to meet their funding requirements in a T+1 settlement window.

Product solutions and technology

What solutions are you offering as banks and vendors to help the client to manage these adjustments?

Norwood: At EquiLend, we are not building new solutions specifically for T+1. For the securities lending industry there has been a drive for automation over the past 20 years. The company was formed in 2000, starting with an autoborrow platform to automate general collateral (GC) trading, but we are now offering solutions across equities lending and hard-to-borrow securities, fixed income and GC.

This move to electronic trading has required a significant behavioural shift for our clients. The role of the securities lending trader has moved from trade input and execution to more one of book management. Automated trading solutions are in no way replacing the trader — they are simply making traders better at their job.

In parallel, EquiLend has launched a distributed ledger technology (DLT)-based solution that eliminates the need for reconciliation across the securities lending industry. This is more of a strategic

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Director, Global Trading Product Owner
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play than explicitly a T+1 play, but this all ties together. As we have noted with CSDR, SFTR, the proposed SEC Rule 10c-1, these regulatory drivers provide an incentive to support a greater velocity of information, ensuring that trades are matched, that counterparties are reconciled and therefore ensuring that contracts will settle with a high degree of efficiency.

We are currently trading 115,000 to 125,000 contracts per day. On comparing our execution data and reconciliation data, we find that trades executed on platform have a break rate of less than 1 per cent. In contrast, trades that are executed through voice trading or chat typically have a break rate of 25-30 per cent. A large number of data points need to be entered to populate the settlement instruction and associated trade reporting — SFTR requires reporting for close to 160 data elements — and the associated static data needs to be accurate to make this possible. It makes sense to embrace the technology solutions that are available to meet this challenge. Firms that fail to do so in a T+1 environment, do so at their peril.

So is this a tipping point, where firms will no longer be able to sustain manual processes and will be forced to automate settlement workflow?

Norwood: We may be approaching the time when this becomes a tipping point. In Canada, there has been slightly less runway to prepare than in the US, so when I am up here in the Canadian market, the transition to T+1 comes up in almost all of our conversations. But for securities finance in general we are in a good position. The solutions are available. Firms are aware of these solutions and increasingly they are adopting them. We have seen automated return processing across our platform grow substantially — and the same is true for automated recalls. We are running 40,000 returns and 1000 recalls per day on average, so things are trending upwards.

Flohr: At Citi, we also have the technology in place to support clients' T+1 requirements across the asset servicing spectrum. The focus is to make this broad portfolio of services available to clients to assist their T+1 transition.

We do not view this T+1 migration simply as a US project. India has migrated to T+1 during 2022, completing in January 2023. Canada is migrating over the same Memorial Day weekend as the US. So is Mexico. European countries have also started looking closely at the potential for T+1 migration, so we view this as one of the first steps in a global move towards T+1 settlement.

On that note, making better use of timezones is crucial to making this process efficient. It is not a case of employing more staff globally, but moving support functions around our global coverage to make most efficient use of these resources. By providing support for the DTCC's 21:00 affirmation deadline out of our Kuala Lumpur service centre, we will be able to deliver the coverage we require to address any exception management and client queries. For securities lending, we will draw on our Singapore service desk to initiate recalls before the start of the US working day.

We are also making the best use of our own technology to support this client activity. Through our Execution to Custody solution, for example, we are able to address challenges around timing of instructions and management of operational resources, removing the uncertainty for clients in meeting affirmation deadlines. Similarly, clients that face foreign exchange and cash funding challenges can apply Citi's FX execution tools — including FX tools, FX Pulse, Auto FX — which provide both next and same day FX capabilities.

Landry: CIBC Mellon has developed a trade lifecycle analytics tool that enables clients to see where they are in the trade lifecycle and to monitor the risk that a trade may fail. This allows them to proactively address these inaccuracies at the earliest point.

We also offer an instruction capture tool, enabling firms that cannot send instructions via the SWIFT network or other electronic formats to use this tool to upload instructions.

CIBC Mellon is part of a global organisation and is therefore able to take advantage of global centres of excellence. The group is reflecting on how it can change its hours of operation to meet clients' settlement requirements more efficiently. When we need to process trades overnight in the Canadian timezone, for example, we are able to draw on these global resources to manage the bulk of our settlement volume, such that our staff in Toronto only expect to be dealing with the exceptions in the morning.

Datta: Reflecting again on India's migration to T+1, the market experienced a spike in settlement fails immediately after transition.

Processes then quickly stabilised and the initial rise in settlement fails has reduced significantly.

There is no shortage of technology, with custodians offering tools to their clients. But, again, this has demanded a change in behaviour. We have observed situations in this T+1 environment where traders execute trades and then pass on the trade tickets to the settlement team when they feel like it. Technology upgrades are key, but the process change — the change in mentality — is crucial.

Norwood: Human behaviour is one of the primary challenges that we face as a technology specialist in trying to get solutions adopted. If the benefits of the solution are not communicated clearly, and the clients are not educated properly in how they can apply this technology, potential users may persist with their inefficient manual processes and fail to recognise the value of adhering to industry standards and best practice.

End-to-end Integration

Is pre-trade analytics becoming increasingly important? The ability to identify risk of settlement failure at an early point and to address this to prevent a trade failing?

Norwood: The end-to-end integration of these elements is massively important. The ability to evaluate millions of lines of data and to pull out relevant insights from this data is key, providing early warning of settlement failure and guidance on why trades are failing. With this information, the counterparty can request to borrow securities to cover the failing trade, or it can take other forms of remedial action.

At EquiLend, we are working with other service providers to deliver this integrated view across the transaction lifecycle. EquiLend offers an integrated trading and post-trade solution, but we also need to support clients that may draw on services of other vendors across their trade lifecycle — and we need access to the required data to provide these trading and post-trade analytics.

Datta: The front-office, middle-office and back-office concepts will eventually change — as these working areas become more integrated. Traditionally, each of these silos has had its own individualised processes and it has been difficult to integrate across these service areas. Eventually this delineation will start to disappear, with front, middle and back-office interlinking more effectively so that matching can be done very quickly and any problems can be identified at an earlier point in the trade lifecycle.

Where are the primary barriers to this advance? Is it cost? Refusal to change existing culture?

Datta: Again, this particularly comes down to behaviour. Firms have become accustomed to processing trade settlement this way, they have done so for years and they question why they should change. This mentality needs to be replaced.

Looking retrospectively, it is evident that some firms managed the move to T+2 by allocating extra staff to certain processes, rather than by upgrading their technology and improving levels of automation.

Rebekah Flohr
North America Head of Custody
Citi

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Flohr: It has been slowly changing. But regulatory drivers such as T+1 will serve as a catalyst to accelerate this transition.

Datta: We have now seen examples of successful T+1 transitions, for example in India. Taiwan has operated a T+1 cycle for securities settlement for more than 20 years. This sends an important message to other jurisdictions, encouraging other countries to follow the lead of markets that have become early adopters of T+1.

Landry: This regulatory change will motivate firms, even more than previously, to identify their specialist position in the trade lifecycle and to pinpoint what they are truly good at. They are then likely to be motivated to specialise in these areas of comparative advantage and to outsource functions where they are less effective and add less value.

Aggregate cost of trading

Is this forcing firms to look more closely at the aggregate cost of trading, including capital costs, cost of settlement fails and other post-trade costs? How adept are firms at allocating the post-trade costs and balance sheet costs across the organisation?

Flohr: This is becoming more important. CSDR has imposed penalties for failing a trade and firms are applying their analytics to identify the source of these fails and the associated cost. The tools are in place to monitor penalties and to allocate these costs within the firm. This is a key part of the educational process as firms adapt to T+1 settlement.

Norwood: The entire lifecycle of a securities lending trade is under pressure. We are doing a lot of this on a T+0 basis today. But the transition to T+1 settlement is likely to increase demand to borrow securities, from a fails coverage perspective, and it will potentially increase the number of returns.

Looking across the securities lending industry, not all of this activity is processed real-time. However, the EquiLend Spire platform gives us the capacity to offer real-time inventory management. With NGT, we have exposure management that is linked to the triparty providers for the exchange of required value (RQV) and the settlement of that collateral instrument.

We have tools in place to monitor the settlement of collateral. But, there may still be challenges — for example, for lenders that are reinvesting cash collateral. Settlement fails will delay receipt of cash when redeeming from a fund and may create problems in reinvesting that liquidity at an attractive yield, particularly later in the day.

Given that a client may select tools on a modularised basis from different providers, it is essential that these are interoperable. With our DLT-based solution, this interoperability is key to maintaining a single centralised record, a single source of truth for the contract, when a client is utilising different tools sourced from different service vendors.

Flohr: The technology solution is one element. Then we go back to location optimisation and use of our operational capability worldwide so that we can take advantage of processing centres in different timezones to support clients' investment activities. With this, you do not need to wait for staff in the US to wake up to commence the recall process for example.

Norwood: The recall challenge has received the lion's share of the attention within the securities lending community, but the collateral management element may be more significant. We issue recalls and can get recalls back in a timely fashion for probably about 99 per cent of loans that we process. It is the 1 per cent that will always be the problem.

But it is the cash management challenges that we have discussed that may present a more significant problem.

Flohr: Most certainly. The complexities presented for cash reinvestment in a T+1 environment, and the implications for clients' funding models more generally, have featured prominently in the conversations we are having on this issue.

Landry: In accordance with Rule NI 24-101 in Canada — referring to National Instrument 24-101, which is the securities regulation that governs institutional trade matching and settlement in Canada — counterparties are required to match transactions before 12:00 on T+1. We are currently at a 98 per cent success rate in meeting this requirement. One outcome is that this puts considerable pressure on the latter half of the business day to get things done. When it gets past 14:00, that is when pressure really builds on the CSD to get those settlements processed.

Providing that we receive the settlement instructions early, we are confident in our ability to get the job done.

ETF settlement

Some elements did not appear to be fully worked through when the SEC announced the requirement to migrate to T+1 in May 2024. This may generate some unintended consequences for ETF settlement for example?

Landry: The Canadian Capital Markets Association (CCMA) has a taskforce around T+1 that is dealing with a lot of these challenges. In moving from T+2 to T+1, settlement practices for collective investment funds and ETFs are governed under the Rule National Instrument 81-102 — NI 81-102, the securities regulation for investment funds in Canada. The legislation for these instruments will not be changing, enabling ETFs to remain at T+2 for primary market settlement if their underlying assets do not settle predominantly on T+1.

This will have an impact on Associated Participants (APs) that have sold ETF shares to investors in the secondary market, for example, and do not have the inventory on hand to deliver to the issuer in the primary market to create additional shares.

To address this situation, the CCMA Task Force has proposed to the Canadian Securities Administrators (CSA) to introduce an exemption under NI 81-102 to enable collateral to be used to facilitate settlement in the primary market, without causing disruption to secondary market settlement.

Without this exemption, APs may be forced to carry excess inventory, thereby increasing the associated cost of settlement and potentially impacting bid-ask spreads. Alternatively, they may be forced to rely on cash-only fund creation and redemptions, which will again impact overall costs for trading ETFs.

More broadly, the Task Force is also examining potential to introduce central settlement for ETFs, like that offered in the US by the DTCC-owned National Securities Clearing Corporation (NSCC). Here in Canada that will be many years out from now, but these are all steps we are taking to prevent any downstream impact of moving to T+1 in the secondary market.

It might be fair to say that policymakers did not fully work through the implications of this decision for how the primary and secondary markets interact. We are working to obtain broader industry agreement that this is the best step forward. I do not believe any AP firm or issuer would want the implications of remaining with T+2 settlement in the primary market to impact trading with ETF investors in the secondary market.

Flohr: That is an important point. Similarly in the US, ETFs that are domiciled in the US but which invest in underlying securities issued in international markets may experience a settlement misalignment. More generally, there will also be timing implications for investors that are looking to redeem securities settling on T+2 in an international market in order to fund positions in the US.

Towards real-time settlement

Will T+1 settlement be the intermediate step in an advance to T+0 and towards real-time settlement?

The challenge is particularly in getting clients 'technology ready' for the transition to T+1. As a custodian, we are prepared and largely ready to go. But some firms across the industry are lagging in their preparations.

Ron Landry
Head of Product and Canadian ETF Services
CIBC Mellon

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Flohr: You highlighted that T+1 was first proposed in the US in 2000-1. It will take until May 2024 to implement this transition from T+2 to T+1 for equities settlement, but I do not anticipate that it will take more than 20 years for the market to transition to same-day settlement.

Landry: However, we will not be transitioning to T+0 with our current technology and settlement processes. Something will need to shift before we can support real-time settlement. In dialogue with my US counterparts, we are discussing what operational structures should look like for Associated Participants to settle ETF shares on T+0. Early indications are that processes will be manual and cumbersome, valuing shares by making intraday adjustments to a prior-day valuation, involving warranted deliveries of collateral and potentially resulting in a rise in buy-ins. If this is an example of how T+0 will operate on a small scale, we are a long way from moving to same-day settlement for ETFs without adopting new technologies and substantially different ways of working.

Norwood: A lot of what we can do now represents building blocks that may enable us to get to T+0. I do not look at T+1 settlement as a massive headache for the securities lending industry. T+0 will be a lot more problematic. Significant steps have been made with technology development, but there will be a need for integrated technology development for analytics, through settlement, cash management, books and records.

There are so many associated touch points and integrated processes that have not yet been thought through in detail. These will need to be substantially modernised before getting to a position where we can really talk about integrated settlement. Tokenisation can potentially help with this, but we are not ready to implement this at scale as a global industry.

Landry: There are still some pressing questions that will still need to be addressed. How will short-selling be managed in a same-day settlement environment for example? How will short-sellers source the borrow before they short the stock — and how will this 'locate' obligation be structured in a T+0 environment?

I envisage that the industry will move in small steps in the first instance — testing T+0 for transactions where we know this is workable and then expanding this to a wider set of instruments.

Datta: In theory this looks good. But in practical terms it is by no means certain this will be good for the US and Canada as large international markets. If we take the situation of an investor from the Middle East for example, they are executing trades when the US is sleeping and it will be challenging to execute these cross-border trades in real-time.

Closing thoughts

What advice do you have for clients to help them to be ready for the May 2024 transition deadline?

Datta: May 2024 is not far away. Seven months will pass very quickly. I have been telling clients to start early. If you are only starting now, you are already behind. If you need to change your technology and your processes, this will take time and you should be acting immediately.

Flohr: Review all your processes globally, looking out for any manual touch points. Look closely at each different part of your business, including funding relationships, FX, treasury, trading, broker relationships, risk management and credit teams, communicating with each of these divisions to ensure they know exactly what is needed to be T+1 ready and compliant.

Norwood: I reinforce those points. It is about reviewing each of these processes and ensuring that you understand the technology solutions available to you. This dialogue needs to involve potential technology partners, counterparties and your peers in the industry, identifying best practices that can benefit each of the relevant stakeholders to the T+1 migration. This forum provides a good example of that.

We also need to understand the implications of making changes in one part of the organisation and how this will play out elsewhere.

Landry: For our clients, the key message is to keep speaking to us, identifying how we can help them and what additional tools that we can offer that they have not been using until now. Even API connectivity can be important, for example, in enabling systems to talk machine-to-machine and to remove manual intervention when communicating instructions and communicating data. At CIBC Mellon, we know that we are ready to go. Now it is a question of sharing this information and helping our clients to transition as effectively as possible.

EQUILEND

T+1

ENSURE T+1 READINESS WITH EQUILEND

EquiLend offers a complete T+1 solution to connect, automate, simplify and expedite all elements of the trade lifecycle leveraging existing EquiLend connectivity.

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