T+1 securities settlement: a challenge and an opportunity

The adoption of amendments by the SEC to the Exchange Act Rule 15c6-1 in the United States will shorten the trade settlement cycle for most US securities transactions to trade date plus one business day (T+1). The impact will be felt not only by US investors and service providers, but by investors and custodians in Europe and Asia Pacific – for whom time differences and increased complexity will add to the administrative headache. While the approaching deadline for T+1 implementation tends to be uppermost in firms' thinking, Vincent Kilcoyne, EVP Product Management of SmartStream, believes financial institutions should also embrace the opportunity T+1 brings to inject far greater efficiency into their operations.

Other locations are gravitating towards accelerated settlement, too. Canada intends to bring in T+1 settlement to coincide with the US, while India has already started a phased transition to a T+1 cycle. It seems likely that the global market will follow the US, eventually even moving to a T+0 regime.

The incoming T+1 framework will put pressure on existing settlement processes, which are currently often neither joined up nor fully automated. In addition, the industry is grappling with pre-existing changes, including a post-Covid move towards greater digitalisation, pressures to reduce costs, and growing data and transaction volumes.

While the T+1 implementation deadline tends to dominate companies' thinking, they should not overlook the opportunity T+1 brings to improve their operations. By scrutinising infrastructure and working practices, firms can weed out poor processes and outdated systems, improve decision-making, and identify higher quality service providers – boosting the efficiency of their businesses.

Successfully meeting the demands of T+1 compliance

Readiness for T+1 compliance varies across the industry. Some firms are well placed to cope, with sophisticated systems in use, while other, typically smaller, organisations continue to rely on manual processes and legacy systems.

To meet the demands of T+1, and to lay the groundwork for T+0 readiness, firms should invest in reliable, proven IT systems. Advanced technologies, such as AI and machine learning, can also allow them to adapt quickly to future change, promoting a proactive approach that augments manual operational capability.

With the deadline for compliance approaching, turning to a third-party technology specialist can be useful. A partner should offer established technology and high levels of support. Deep operational insight is essential, too, as this will enable it to help an institution review its current infrastructure and identify where efficiencies can best be achieved.

With over four decades of experience, and an

extensive history of delivering post-trade solutions and services to the financial sector, SmartStream is uniquely well positioned to help organisations meet the demands of accelerated trade settlement. A trusted partner to many of the world's top financial institutions, SmartStream's solutions and services range across the middle and back office.

SmartStream solutions assist firms to meet the demands of T+1 compliance across a wide range of post-trade activities – from reconciliations processing, through to cash and liquidity management, collateral management, and corporate actions. They can be accessed flexibly, too, whether using APIs and micro-services, through managed services and cloud environments, or via traditional on-premises installations.

Reconciliations

The incoming T+1 cycle will force companies to carry out reconciliations processing in a compressed timeframe, leaving a far smaller window for discrepancies to be identified and fixed. Where existing reconciliations infrastructure relies on ageing legacy architecture and manual processes, firms may struggle. To cope with the rapid pace T+1 will impose, financial institutions require systems that allow a real-time, intraday processing approach. Any application chosen should be asset-class agnostic, volume-insensitive, and capable of dealing with new and existing data formats.

SmartStream provides a fully controlled reconciliations architecture that delivers comprehensive exceptions management. Its rich exception handling capabilities offer in-depth insight into the state of transactions as they transition through the settlement lifecycle. Additionally, they permit exception categorisation, prioritisation, and allocation – enabling problems to be assessed and routed speedily to the appropriate team for resolution.

SmartStream reconciliations technology offers advanced reporting: real-time information means users can spot breaks quickly, refine decision-making and control risk more effectively. In addition, managers can carry out detailed trend analysis to pinpoint issues undermining processing efficiency. These features are built into the

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technology, so organisations do not need to create their own complex reporting systems.

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Importantly, SmartStream reconciliations technology can process tens of millions of transactions per day, from sources across all the disparate areas that touch T+1 settlement, creating a truly holistic view of processing activities.

Cash and liquidity management

The advent of T+1 settlement will force firms to pay for and deliver securities faster, driving the demand for intraday liquidity. There is likely to be greater competition for funding sources, and increased need for short-term funding. There will be less time to spot and correct any mistakes – which could be expensive if a late funding request results.

SmartStream technology delivers real-time cash and liquidity management, consolidating existing siloed infrastructures, and capturing transactions from internal and external sources to create a single, global view of balances across all currencies and accounts. Firms can understand funding, borrowing, and lending requirements in real time, identify problems promptly and take corrective action quickly.

Collateral management

Financial institutions will need to make alterations to their collateral management practices – they will have to automate all aspects of the collateral management process, including agreement, booking, substitutions and settlement notifications. They must automate connections to internal and external systems, as well as put in place an efficient fails management process. Easily and inexpensively upgradable technology is also desirable.

SmartStream provides an established, end-to-end, automated collateral management solution which is used by financial institutions across the globe. It connects to firms' internal systems via application programming interfaces (APIs) that allow programmatic interactability. When users want to send and receive information, they can do so on a real-time notification basis. The APIs are backwardly compatible, so changing any connectivity points when upgrading is unnecessary.

Corporate actions

Another area where the impact of accelerated settlement will be felt is corporate actions. Once the T+1 regime comes into play, any corporate actions affecting instrument static data (and so impacting trade matching), will need to be processed within 24 hours of trade execution, to avoid failed settlements. Firms dependent on custodian data and spreadsheets are likely to find T+1 compliance especially testing.

SmartStream's corporate actions solution delivers real-time processing for the complete lifecycle, handling complex events and providing visibility of all the corporate actions affecting the business. The solution lowers the risk of errors or missed elections, improves efficiency, as well as reducing administrative burden and costs.

Conclusion

It is tempting for firms to prepare for T+1 implementation by falling back on the traditional route of hiring more people. Yet the key to solving T+1 compliance successfully is automation. Indeed, given the likelihood of an eventual transition to T+0 – where processing speeds will be far too great for human workers to cope with – it is surely the only realistic way forward. ∎