

Taking the trauma out of T+1

As financial markets across the world start to move towards T+1 trade settlement, a host of changes are accommodating the change. Future Banking talks to Vincent Kilcoyne, executive vice president product management at **SmartStream**, about the impact on financial services institutions.

Early in 2024, the United States will move from its current T+2 cycle to T+1 settlement. Canada aims to follow suit too, while a transition to T+1 remains a key focus for the EU – even as T+2 so far remains the norm for most equity and fixed income transactions. The UK, for its part, set up an industry taskforce in 2022 to explore the case for an accelerated settlement cycle, due to report next year.

This is far from the first time that settlement horizons have shortened, but the drive for more efficient use of capital across markets, by reducing credit, market and liquidity risks, is not without its challenges.

“In all honesty, organisations don’t know enough about their business to be able to quantify the impact or the benefit of T+1,” says Vincent Kilcoyne, executive vice president product management at post-trade solutions provider SmartStream. “What do they know and what can or can’t they quantify? The answer varies a lot.”

“Do they have enough metrics to look at the situation now and figure out what areas of biggest benefits are of T+1?” Kilcoyne wonders. “Every regulation initiative is a financial and resource pain, but also an opportunity for gain, though most organisations don’t have access to the operational analytics that allow them to say what the current state of play is – or how to move the dial operationally as they move forward.”

Shorter settlement times should lead to improved liquidity, which could allow banks to reduce the level of capital buffer they hold. But to reap the benefits, they will need to invest in the automation and standardisation of processes – processes that are currently

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inefficient and where the view of their data is currently opaque.

“There is a saying that greatest discoveries in science are not followed by the word ‘Eureka’ but by the phrase ‘that’s strange,’” says Kilcoyne. “Anomalies come up when you have the correct operational analytics in place because the data can tell an accurate story. That creates an opportunity to move from opinion-led decision-making to data-driven, evidence-based decision-making.”

“If you look at operational analytics you will learn more about the DNA of your organisation,” he continues. “That gives you the opportunity to reduce fail rates by identifying problems and fixing them.”

Ahead of the game

T+1 settlement has major implications for liquidity management, as banks are likely to see increased intraday liquidity, a demand for faster payments, and a greater requirement for cash and liquid assets in the short term. Costs are likely to rise initially, mainly due to investment in new technology to facilitate faster settlement.

The key is to ensure that investments deliver the kind of operational improvement and insight that brings benefits to the organisation.

“T+1 has been coming for a long time and its benefits are in risk reduction,

which is particularly important at times of market volatility,” says Kilcoyne. “If you find out about a problem when it has just happened you can address it in an actionable timeframe because you are not so far out of synch that you can’t get ahead of the problems. The move to T+1 is a move to remove that latency between problem identification and solution.”

“Banking, however, is fragmented and systems are fragmented,” Kilcoyne continues. “If I pull a liquidity report it will 100% be wrong because it is out of date as soon as it is created. It would be a wise decision to be able to comply with T+1 but make systems more elegant and ready to go further, as regulation will always go further in the end. T+1 is a milestone, but must be seen as a waypoint, not a destination.”

SmartStream has a comprehensive suite of post-trade solutions, all of them designed to make use of AI and ML to deliver automation, increased speed and greater efficiency. For the T+1 environment, its ability to provide accurate metrics in near real-time gives it an unmatched ability to give banks a clear picture of liquidity.

Able to process millions of transactions daily for a single client, SmartStream is able to help organisations optimise workflow, provide high-quality data, and re-engineer processes to implement best practice.

“Reconciliation is the entry point, then we provide real-time cash and liquidity based on real-time payments data,” Kilcoyne summarises. “We are moving clients from being operationally competent to operationally optimised.” ●

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