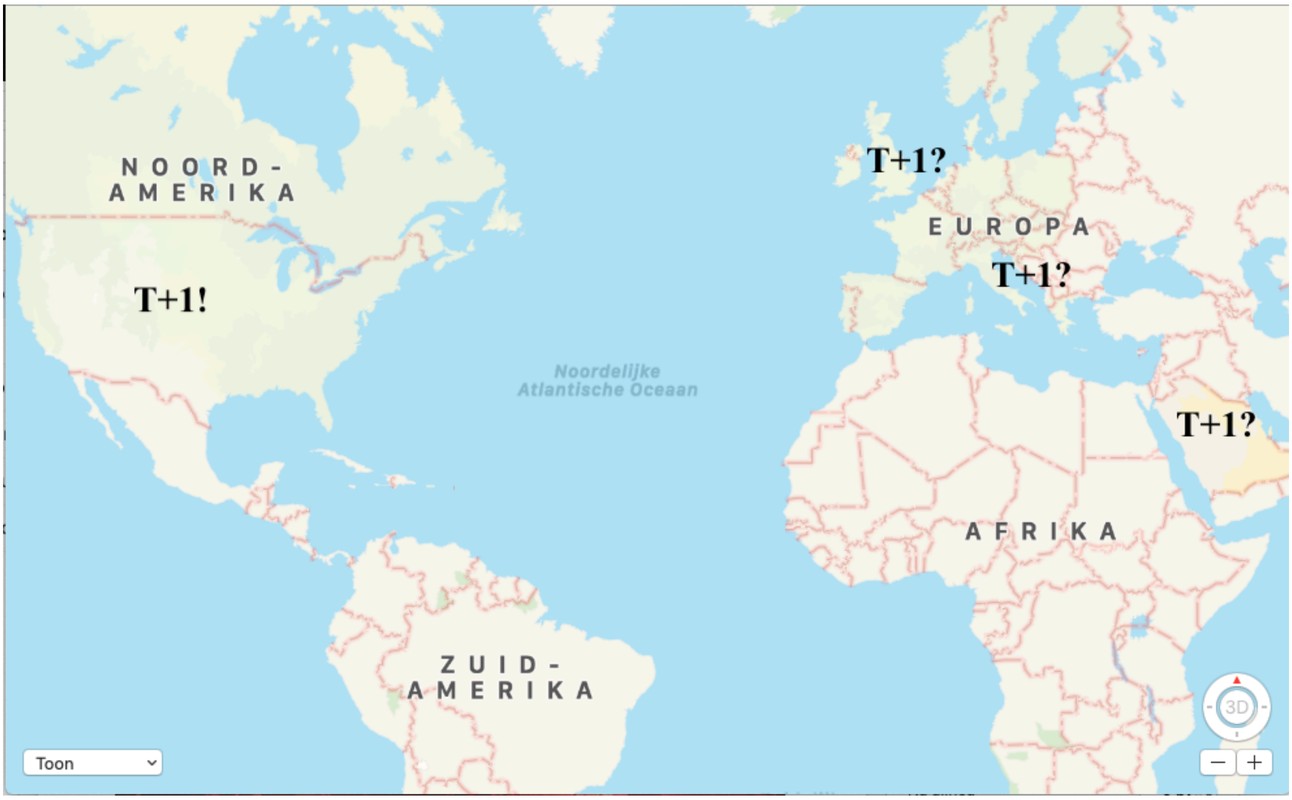
Highlights of the AFME Webinar: 'T+1 Update: What have we learned from the US? What's next for Europe?'

Event date: 26 June 2024

Location: Online

Hosted by: Pete Tomlinson (AFME)



Documentation by: Ardi Kaars

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Introduction
This webinar covered the implementation of a T+1 settlement regime in the US and Europe, and challenges along the road. Several industry insiders and representatives of implementation task forces shared have shared their views on the benefits and roadblocks of such a market regime. I have documented the highlights per speaker.

Below you can find an outline of the webinar. I have used Roman numbers to rank each step, with the corresponding field expert.

I. Opening by Pete Tomlinson (AFME)
- Almost one month ago, T+1 went live (US)
- Now it is time for reflection on the achievements thus far

II. Anthony Macchiarulo (SIFMA)
- So far, T+1 has paid off
- Initial concerns about higher fail rates haven been proven wrong
- On the first day of T+1 settlement, the CNF fail rate was only 1.9%, and 94.55% of the transactions were affirmed by the DTCC before the cut-off time at 9 pm ET (more information on https://www.dtcc.com/news/2024/may/30/dtcc-comments-on-industrys-t1-progress)
- It is business as usual -> Results are monitored, and the data looks strong thus far

III. Emma Johnson (JP Morgan)
- From the custodian community, T+1 has received a lot of support
- We have a responsibility to serve the client base
- Key success was when US colleagues came on to a road show, there were some difficulties due to time zone differences, yet a common understanding has been achieved across regions

IV. Andrew Harvey (GFMA)
- Effects of use to fund -> For the last 2+ years we have been working with SIGMA teams across jurisdictions, making sure there are people in the right time zone -> This is still evolving
- Two things to consider: i) The provision of liquidity ii) The fact that banks were staffing later in the day (4-6 pm EST) meant there was some lack of availability on the buy-side, yet no significant changes in spread
- There are no significant changes in settlement volumes
- In the future, we need to keep an eye on holiday reporting

V. Anthony Macchiarulo
- By taking risk out of the system, the aggregate market volume of trade and settlement risk are reduced
- This frees up resources to mitigate risks elsewhere across clearing processes
- Other markets such as Jamaica already reduced settlement cycles before
- The NSCC clearing fund decreased by $3.7 billion versus past quarter

VI. Emma Johnson
- The affirmation rates are high yet settlement rates are similar

VII. Anthony Macchiarulo
- DTCC is going into the details of settlement data
- We need to ensure this benefit is here to stay

VIII. Susan Yavari (EFAMA)
- How much look-back do we need? -> We need more time -> It was promised that there would be no major blow up, yet we did see a period of subdued trading volumes
- Early signals of widening spreads on ETFs were seen, yet we carefully assessed the causes (was it T+1 or attributable to something else?)
- The challenge before us: Cash management, leading to operational complexity and additional costs

- If you sell European securities, it rebalances your portfolio from within a T+2 regime, yet you have one fallout day when these securities are exposed to US markets
- The legal framework in Europe was not designed to address cash misalignment -> Yet more harmonisation is in place now
- Regarding European ETFs versus those of the US, we need to ask ourselves: i) Do we have higher trading costs? ii) And what are the long-run effects?

IX. Andrew Douglas (UK T+1 Task Force Technical Group)
- For me there are 2 things to consider: i) The importance of education ii) Certainty, for the industry likes certainty -> Chairman Gensler has stressed the importance of picking a date and sticking to it
- I have often been asked, do I think change of government in the UK is affecting T+1? The answer is no, for this is an industry-related initiative, so we provide our own certainty
- There are two things upcoming: i) Our task force is working diligently -> We are the backbone of the UK '25 draft plan for end of September ii) There will be a final report in December
- Yet there are caveats: i) What is the setup in the US? This one has expired ii) We are waiting for any decision by the EU and ESMA in particular

X. Susan Yavari
- In the EU, just like the UK, there is an association for T+1, yet there are differences:
- i) In the UK, there is an industry-led taskforce yet it is mandated by the government, whereas in the EU it is very industry-driven instead -> Back in 2023, there was an interim report with time until 2025, we are waiting for a new European Commission to respond
- ii) In the UK, end of 2027 delineates the time-window -> There is no comparable situation in the EU
- iii) When it comes to preparation, the Charlie Geffen report mentioned trade-matching as a point of preparation -> This was not so much mentioned in the EU

XI. Emma Johnson
- "Susan, nothing you said is boring" :-) -> I would like to see an aligned European move -> Despite Brexit, the UK and the EU have a common regulation framework in terms of post-trade, similar market-practices
- In 2025, there will be no divergence between the two
- Brexit is only a political breakup
- From a cost-perspective, large-scale changes are costly -> The last thing we want are duplicated projects
- When looking at the US, scope is foundational
- A lesson from the US -> Dual-listed securities took time to handle
- We need to use FMI exemptions etc. -> Any divergence just creates operational tension

XII. Susan Yavari
- We want to avoid misalignment -> if it happens, Europe will be isolated

XIII. Ardi (me)

- Question: Not so long ago, the Middle-East, with the Tadawul at the forefront, have adopted a T+2 regime to adapt to international markets. How does the adoption of T+1 affect the process of alignment between markets in the US, Europe and the Middle-East (or other regions for that matter)?

XIV. Andrew Douglas
- I will get there in a moment
- Regarding isolation, we tend to focus on cross-channel alignment -> Now we already have 50% misalignment of global capital markets in relation to the US -> This is more problematic to the UK and EU than to the US
- Our task in Brussels is to spread the word
- How can we encourage other markets to understand what goes on in the UK? -> We have a list of where the cash inflow comes from -> We spread word to EU, US, Australia, South-Africa, Japan, Singapore -> We want to avoid a scenario of moving to T+1 when investors 'did not know'

XV. Anthony Macchiarulo
- Advise the UK and EU -> Prepare and collaborate early

XVI. Emma Johnson
- Mandatory partial settlement -> In narrow context of T+1, for maximising liquidity partial settlement is helpful
- On protectionist policies -> We need to look per region on T+1 settlement benefits -> There is no room for protectionism -> Discrepancies hamper rather than benefit the risk-landscape

XVII. Andrew Douglas
- We will end up with a date of convergence

On a final note
It was a pleasure to be at this webinar, and see the real-life implementation of a T+1 market regime unfold. As apparent, there are several challenges to deal with, such as fragmentation risks and operational challenges. Interestingly there is a high degree of interaction between the EU and UK in this matter, yet with varying approaches, and clearly the US has been the trendsetter for T+1. Many thanks to Pete Tomlinson and the AFME for having organised this event and for having welcomed me! For feedback, please send an E-mail to quero@discounted-by-a-lightning-strike.com. Thank you for reading!

I have no interests to declare other than my attendance as a board member of investment committee Carpe Divitias.