

US T+1 – What should European firms be doing to prepare?

AFME recently hosted a webinar on shortening settlement cycles (known as T+1 settlement), discussing the latest developments in the US and Europe. AFME was joined by a panel of expert speakers from DTCC, the Value Exchange, Goldman Sachs, BNP Paribas and EFAMA – providing views from across the industry on the impact of the US migrating to T+1 settlement in May 2024.

The panel opened with a factual overview of the new requirements by **John Abel, DTCC**. It was noted that as well as the new settlement timings, the industry will also have to prepare for compliance with stricter requirements regarding the process for allocation and affirming transactions on trade date.

Barney Nelson, the Value Exchange, presented an overview of his firm's market research into industry readiness for T+1. The research highlights that the operational impacts of the move will be felt hardest by smaller firms outside of North America. Firms are generally expecting impacts across the entire trade lifecycle from account opening to corporate actions, with many institutions considering changes to resourcing and operating models to facilitate the move.

Panelists representing custodians (**Emmanuelle Riess, BNP Paribas**), broker-dealers (**Sachin Mohindra, Goldman Sachs**) and investors (**Susan Yavari, EFAMA**) identified three core areas where potential challenges are likely to arise.

First, in relation to the affirmation process, which must be completed on trade date by 9pm EST. It was noted that this represents a considerable 'squeeze' on post trade operations, particularly for institutions based outside the US. Panelists identified the need for greater focus on automation to help solve this challenge.

Second, it is expected that there will be a significant impact on funding processes, in particular where an FX transaction is required in order to facilitate settlement. The timing of FX transactions will also be compressed, with potential impacts on pricing and liquidity.

A third area of concern identified was to securities lending processes. Given the shorter settlement period, securities will have to be recalled on a shorter timeframe, increasing the possibility of settlement fails. Panelists noted that this could possibly lead to less inventory being made available for lending, potentially damaging overall market liquidity.

Panelists also noted that the US move to T+1 will reintroduce a global misalignment of settlement cycles, creating problems for globally active institutions, in particular, in relation to funding and cash management, and for transactions in securities with a multi-jurisdictional nexus, such as ETFs.

This naturally raises the question of whether Europe should also move to T+1 settlement. **Pablo Garcia, AFME**, noted that industry discussions on the topic are underway in both the UK and EU. Any such move will require careful consideration, in light of the additional challenges that will face Europe, such as the increased complexity of its market infrastructure landscape and the existence of CSDR settlement discipline measures.

As the industry continues its progression towards T+1 adoption in the US in 2024, and with developments expected in both the UK and the EU, there will be plenty more to discuss in the coming months.