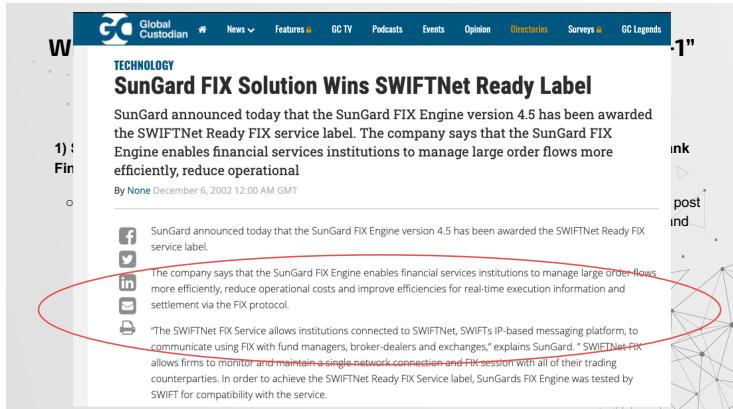


# Tutorial 4 Qns 1 Group 7

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What are some factors that will make the "dream of T+1" attainable?



**TECHNOLOGY**  
**SunGard FIX Solution Wins SWIFTNet Ready Label**

SunGard announced today that the SunGard FIX Engine version 4.5 has been awarded the SWIFTNet Ready FIX service label. The company says that the SunGard FIX Engine enables financial services institutions to manage large order flows more efficiently, reduce operational costs and improve efficiencies for real-time execution information and settlement via the FIX protocol.

By None December 6, 2002 12:00 AM GMT

**1) Financial Institutions**

**2) Vendor Support (Integratable Solutions)**

- Vendor aims at providing services to make profit and protect its market niche.
- E.g Solutions that are not compatible or easily integrated with other solutions.

**3) Utility Development (Automating)**

- Industry utilities - Exchanges, depositories and clearing agencies
- Extend service to eliminate paperwork, implement cross collateralization, matching pre-trade and trade information, and merging amongst industry utilities.

**4) Regulatory Change**

- Shorter settlement cycles
- Enforcement of processing rules



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## Are there factors that make the goal of achieving T+1 unattainable?



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### 1) Inertia and Resistance to Change

- Many firms would prefer to keep things the way they are if they are not broken

### 1) Adoption Rate

- Requirement for 100% adoption rate in order to achieve T+1.
- This is relatively difficult with numerous number of parties involved.

### 1) Segmentation and Difference of Priorities

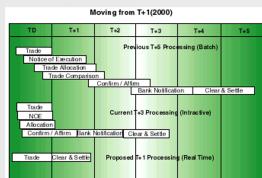
- Many different parties involved.
- Different type of firms have different emphasis on what needs to be improved.



## Are there factors that make the goal of achieving T+1 unattainable?

### 4) Effort

- Many firms will have to make significant changes to their primary systems to achieve T+1
- Require for processes to move in parallel instead of linearly / sequential since settlement has to be done within a day after the execution of trade to ensure T+1.
- Models will have to be modified.



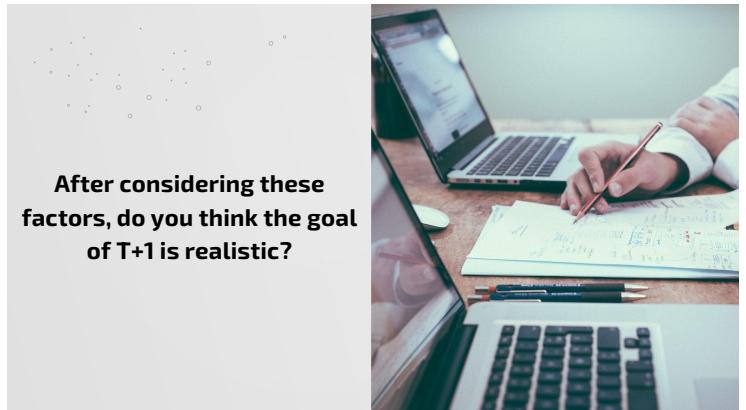
### 5) Expense

- With every effort, it will come at an expense.
- This could incur large expenses in the requirement to upgrade systems etc.

#### 4.1 Summary cost-benefit findings<sup>11</sup>

Combining the requisite investments and resulting cost and Clearing Fund impacts across the two models, we see that, with respect to the investments required, the payback period of T+1 is shorter than that of T+1. The payback period across the industry is approximately three years for the T+2 operating model. For the T+1 operating model, the payback of investment is approximately five years, assuming significant transformation in behaviors and adherence to a "trade date" environment accompany the transition to T+1. The corresponding IRRs of each model are 18% and 14% for T+2 and T+1, respectively. The aggregated results of the cost-benefit analyses for T+2 and T+1 are compared in Figure 6 below.

## After considering these factors, do you think the goal of T+1 is realistic?



## What are the factors arguing against and for the goal of T+1?

| Attainable |                                   | Unattainable |   |
|------------|-----------------------------------|--------------|---|
|            | Standards - FIX & SWIFT           |              | Inertia and Resistance to Change          |
|            | Vendor Support                    |              | Adoption Rate has to be 100%              |
|            | Utility Development (Automation)  |              | Segmentation and difference of priorities |
|            | Regulatory Change and Enforcement |              | High Cost and Effort                      |

## We feel that the goal of T+1 is not realistic (for now)

### 1) Implementation of T+2 Settlement Cycle

- Most countries have just transitioned to T+2
  - India, Hong Kong, Germany, Taiwan
- Some countries have just began to implement the systems needed for T+2
  - Singapore

### 1) Implementation risks

- Technological limitations
  - Security and Infrastructure issues
  - Distributed Ledger Technology still relatively new
- Large scale coordination among all stakeholders required

### 1) High Investment Costs

- Increased investments required
  - T+1 model is significantly higher than T+2 model

## Estimated Cost of Implementing T+1 Settlement Cycle

|   | Number of firms  | T+2 Investments             | T+1 Investments              |
|---|--|-----------------------------|------------------------------|
| <b>Industry total</b>                                 |  | \$550 M                     | \$1,770 M                    |
| <b>Average investment per firm by segment (range)</b> |  |                             |                              |
| Institutional B/Ds                                    | 106 <sup>1</sup>   | \$1 - 4.5 M                 | \$4.5 - 20 M                 |
| Retail B/Ds   | 101 <sup>2</sup>   | \$1.5 - 4 M                 | \$3 - 15 M                   |
| Buy side  | 546  | \$0.3 - 1 M                 | \$0.6 - 2 M                  |
| Custodian banks                                       | 137  | \$0.5 - 4 M                 | \$1 - 16.5 M                 |
| Others  | Includes DTCC, Omgeo, Service bureaus, RIAs and non-self-clearing broker-dealers | Total investments<br>~\$70M | Total investments<br>~\$290M |

Source: [https://www.dtcc.com/~media/Files/Downloads/WhitePapers/CBA\\_BCG\\_Shortening\\_the\\_Settlement\\_Cycle\\_October2012.pdf](https://www.dtcc.com/~media/Files/Downloads/WhitePapers/CBA_BCG_Shortening_the_Settlement_Cycle_October2012.pdf)

## However, it would be realistic in the future...

### NSE and BSE, India starting T+1 settlement cycle from Feb 25, 2022 in phases

- Introduce T+1 settlement cycle in phases beginning with bottom 100 stocks by Market Capitalisation
- Last Friday of every month to introduce the next 500 stocks to T+1 settlement cycle

### DTCC Proposed “Compressed Settlement Timeframe <T+1”

- Compressed Settlement Time Frame is achieved by:**
  - Accelerated Settlement
    - An optional, expedited settlement model, participants can request for trades to be settled T+1
  - Settlement Optimization
    - Aims to improve processing efficiency through night cycle re-engineering, enhanced asset lending, automated margin pledge facility
    - Introduced intraday settlement slice (Settlement at beginning of day)

## Consider Singapore and the U.S. financial market.

Which financial market do you think is likely to attain STP first?

What are some characteristics that work for and against each market in achieving STP?



Consider Singapore and the U.S. financial market. Which financial market do you think is likely to attain STP first? What are some characteristics that work for and against each market in achieving STP?

- **Q1 2021:** DTCC anticipates completion of prototype development for the Project Ion settlement system, which provides a T+1 environment for the industry on a digital platform using distributed ledger technology (DLT) and other emerging technologies. Industry testing will begin shortly after the prototype is completed.
- **Q3 2021:** DTCC's Project Ion platform moves to development phase following successful pilot with industry
- **H2 2022:** DTCC to begin transitioning to an enhanced settlement model that more closely integrates processes from DTCC's equities clearing and settlement subsidiaries, NSCC and DTC.
- **By 2023:** DTCC proposes the U.S. settlement cycle to officially move to T+1, with market participant and regulator alignment.

These steps will complement DTCC's prior efforts to further optimize current processes and increase settlement efficiency, such as the re-engineering of night cycle processing, which was completed last year.

DTCC has proactively begun laying the foundation and is ready to move quickly for the eventual move to T+1

Consider Singapore and the U.S. financial market. Which financial market do you think is likely to attain STP first? What are some characteristics that work for and against each market in achieving STP?  
Work for US:



U.S. SECURITIES AND EXCHANGE COMMISSION  
Press Release

### SEC Adopts T+2 Settlement Cycle for Securities Transactions

FOR IMMEDIATE RELEASE

2017-48

Washington, D.C. [March 22, 2017] The Securities and Exchange Commission today adopted an amendment to shorten by one business day the standard settlement cycle for most broker-dealer securities transactions. Currently, the standard settlement cycle for these transactions is three business days, known as T+3. The amended rule shortens the settlement cycle to two business days, T+2.

- The amended rule is designed to enhance efficiency, reduce risk, and ensure a coordinated and expeditious transition by market participants to a shortened standard settlement cycle.
- Clear plan to move towards T+1

**DTCC**

Feb 24, 2021 • Press Release

### DTCC PROPOSES APPROACH TO SHORTENING U.S. SETTLEMENT CYCLE TO T+1 WITHIN 2 YEARS

New white paper highlights the benefits of moving to a T+1 settlement cycle, and details plan to continue building industry support

Paper also provides updates on efforts already underway to increase settlement efficiency and reduce risk

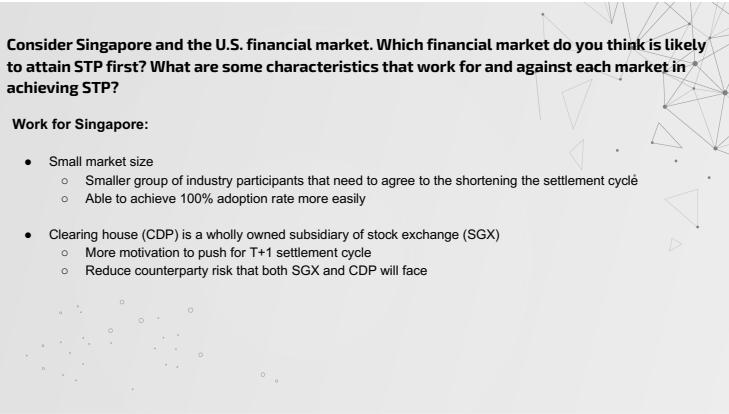
Consider Singapore and the U.S. financial market. Which financial market do you think is likely to attain STP first? What are some characteristics that work for and against each market in achieving STP?  
Against US:

- Efficiency of Regulation
  - US was one of the last among the significant markets in the world to move to T+2 (Sept 2017)
  - 29 European markets shifted to T+2 settlement trade on 6 October 2014 with 3 other European markets already settling on a T+2 basis. In addition, many Asian markets such as Hong Kong were also already on a settlement cycle shorter than T+3 by the time US started settling on a T+2 basis.
- Diverse group of investors in the market
  - Shifting to T+1 (next day settlement) creates a huge logistical problem for investors operating in different time zones
  - Could create inefficiencies around trade matching and end of day reconciliations
  - May result in difficulty/will take a long time for all industry players to align and come to a consensus regarding T+1

**Consider Singapore and the U.S. financial market. Which financial market do you think is likely to attain STP first? What are some characteristics that work for and against each market in achieving STP?**

**Work for Singapore:**

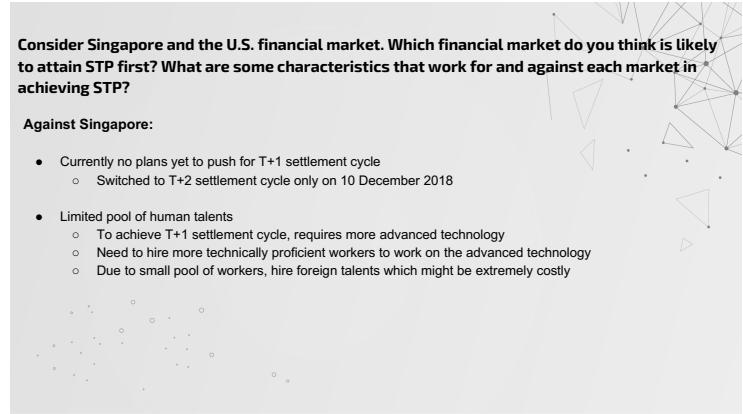
- Small market size
  - Smaller group of industry participants that need to agree to the shortening the settlement cycle
  - Able to achieve 100% adoption rate more easily
- Clearing house (CDP) is a wholly owned subsidiary of stock exchange (SGX)
  - More motivation to push for T+1 settlement cycle
  - Reduce counterparty risk that both SGX and CDP will face



**Consider Singapore and the U.S. financial market. Which financial market do you think is likely to attain STP first? What are some characteristics that work for and against each market in achieving STP?**

**Against Singapore:**

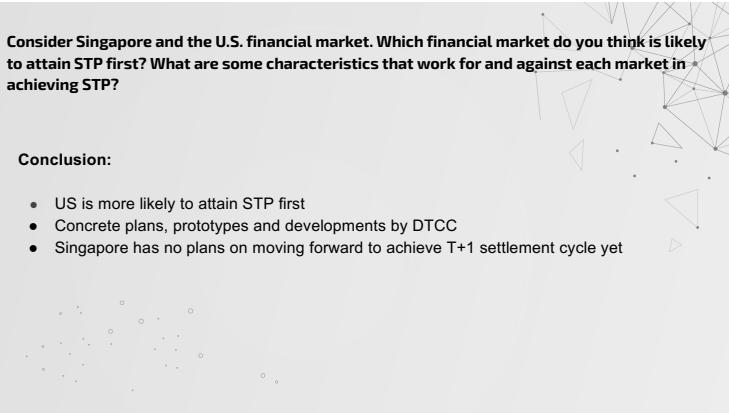
- Currently no plans yet to push for T+1 settlement cycle
  - Switched to T+2 settlement cycle only on 10 December 2018
- Limited pool of human talents
  - To achieve T+1 settlement cycle, requires more advanced technology
  - Need to hire more technically proficient workers to work on the advanced technology
  - Due to small pool of workers, hire foreign talents which might be extremely costly



**Consider Singapore and the U.S. financial market. Which financial market do you think is likely to attain STP first? What are some characteristics that work for and against each market in achieving STP?**

**Conclusion:**

- US is more likely to attain STP first
- Concrete plans, prototypes and developments by DTCC
- Singapore has no plans on moving forward to achieve T+1 settlement cycle yet



## References

[SEC.gov | SEC Adopts T+2 Settlement Cycle for Securities Transactions.](#)

[Shorten U.S. Settlement Cycle to T+1 Within 2 Years | DTCC.](#)

[DTCC's Project ION Platform Moves to Development Phase Following Successful Pilot with Industry | DTCC.](#)

[SGX to implement T+2 settlement cycle and other changes to settlement framework on 10 December 2018: Allen & Gledhill \(allenandgledhill.com\)](#)

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