Title: BCG worked for dtcc on settlement cycle in 2012
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Created 2022-04-24 00:29:59 UTC
Permalink: /r/TheGloryHodl/comments/uaioxz/bcg_worked_for_dtcc_on_settlement_cycle_in_2012/
Url: https://i.redd.it/19ztyf0rcts81.png

1 Executive Summary

Rationale for study

The aftermath of the 2008 financial crisis and more recent industry problems have brought into greater focus the risks and inefficiencies in post-trade processes, a portion of which may relate to the length of the settlement cycle. Since 1995, the settlement cycle has remained at trade date plus three business days ("T+3") for U.S. equities, corporate bonds and municipal bonds, despite significant improvements in post-trade processes and underlying technology over the same period. Accordingly, in May 2012, the Depository Trust and Clearing Corporations (DTCC) commissioned an independent study to examine and evaluate the necessary investments and resulting benefits associated with a shortened settlement cycle (SSC) for US equities, corporate and municipal bonds. The purpose of this study was to examine three of the industry's critical areas of concern: reducing risk; optimizing capital; and reducing costs by streamlining processes. To ensure the independence of the study's findings, DTCC selected The Boston Consulting Group (BCG) to lead the analysis. The Securities Industry and Financial Markets Association (SIFMA) provided an advisory role on the project and helped assemble a Steering Committee to advise on the project. As BCG was asked only to share research findings so that the industry could determine to accelerate the settlement time period or remain at T+3, there is no recommendation contained in this report.

Approach

BCG took a three step approach in testing the preparedness of the industry, feasibility and desire to move to a shortened settlement cycle. The three steps were:

1. Extensive industry outreach;
2. Quantitative modeling of investments required and savings impact; and
3. Articulation of key findings and insights.

Industry outreach included over 70 in-depth, one-on-one interviews with firms of various sizes, including institutional and retail broker-dealers, buy side firms (asset managers, hedge funds and pension funds), registered investment advisors, custodian banks, transfer agents, service bureaus, exchanges and market utilities. A quantitative survey was also sent to over 260 firms, and the combined industry outreach covered 109 entities representing 94 different institutions. This outreach was further complemented by interviews and benchmarks with clearing utilities from various international markets, including Germany, the European Union, Hong Kong and Canada. Leveraging

this outreach and several public and proprietary data sources and benchmarks, we developed a quantitative model of the investments and costs associated with shortening the settlement cycle to T+2 or T+1. Finally, we conducted several deep dive working sessions with 10 firms to validate the investments, cost savings, underlying assumptions and model outputs.

Results

Initial industry outreach, conducted prior to the cost benefit analysis, showed that the majority of participants within each constituent segment are in favor of a SSC, with 68% of all participants supporting a move. Twenty-seven percent of participants considered a SSC a high priority prior to consideration of an industry-wide cost-benefit analysis and without confirmation of support by regulators. Furthermore, there was broad consensus on the risk reduction benefits of a shorter cycle, with 55-60% of firms indicating risk reduction to their firms (and 70-75% of firms indicating risk reduction to the industry) from shortening the cycle by one day. Beyond risk reduction, constituent groups indicated different benefits and challenges from transitioning to a shorter settlement cycle