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## Accelerating the settlement cycle: An opportunity to modernize the industry

The financial services industry (FSI) is evaluating an acceleration of the current two-day settlement cycle. Moving settlement to one day after the trade (T+1) will have a significant impact on the capital markets industry and market infrastructure, particularly for settlement business functions and technologies.

Currently, firms have two days after a trade to settle a transaction, including processing payment and delivering securities. In February 2021, the Depository Trust Clearing Corporation (DTCC) proposed a change in the settlement cycle and outlined potential benefits and proposed changes to settlement processes.<sup>1</sup> Most recently, the Securities Industry and Financial Markets Association (SIFMA), in coordination with DTCC and the Investment Company Institute (ICI), issued a press

release<sup>2</sup> indicating support for accelerating the settlement cycle. Consequently, many firms have begun to assess their previous work plans and impact analyses from the shortened settlement cycle transition in September 2017 to begin to assess DTCC's proposal.

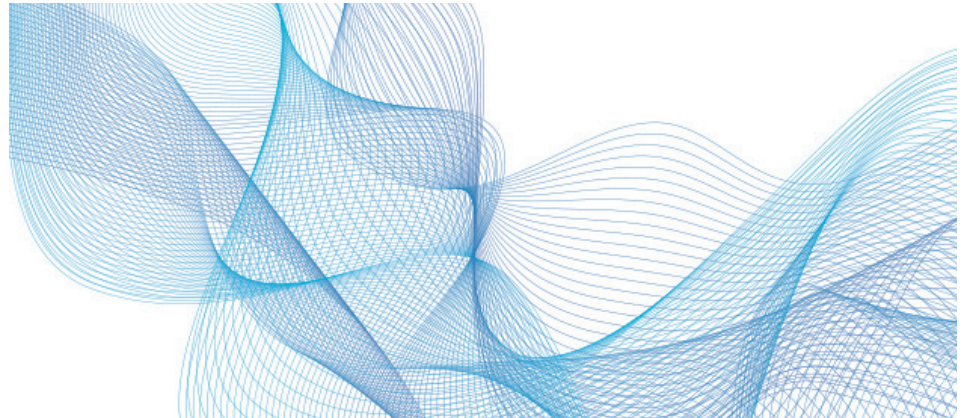
An industry transition to a T+1 or T+0 settlement cycle will have a much deeper impact than the previous T+3 to T+2 transition. It is anticipated that wholesale

changes need to be considered to challenge historical settlement processes and behaviors, rather than simply compressing time between processing cycles or business processes. Substantial changes to business practices and supporting technology will be necessary to meet the reduced settlement period.

While a transition to a T+1 or T+0 settlement cycle may require wholesale changes, the industry anticipates several benefits. Accelerating the settlement of securities to one day after the trade (or less) may potentially reduce the risk of default and, therefore, the collateral needed over the settlement window. Reimagining certain business processes related to historical settlement activities may also further reduce operational expenses and, ultimately, improve capital efficiencies.

As the industry considers accelerated settlement, there are several considerations firms should assess for a transition from T+2 to T+1 or, potentially, T+0.

- **Process improvements.** Firms should review their specific processes to identify and remediate delays, which may include the following:
  - **Nightly batch cycle dependencies** need to be considered when measuring the sequence of activities for settlement, as well as the peripheral business activities dependent upon those processes.
  - **Vendor integration and dependencies** should be considered, particularly critical operational systems.
  - **Changes to industry service timelines**, such as DTCC's proposed schedule, will require changes to internal firm processes and systems.
  - **Inbound client information flows**, as well as outbound client data distribution
- **Technology landscape:** Can the current infrastructure support the changes necessary for T+1 settlements, and what new technologies may be necessary in the move to T+0? System resiliency should be evaluated and tested, given that the reduced processing window may require improved failover capabilities to minimize impacts of system outages.
- **Firm policies and procedures:** Future-state operating model design and updated policies and procedures should reflect changes in business and technology operating manuals.
- **Customer impact and awareness:** Firms should assess impact on certain



customer segments; address changes in products, connectivity, communications, and funding requirements; and adopt a broad client education and change management program to support their customer base during and after the transition.

- **Governance and performance metrics:** Firms should be prepared to demonstrate:
  - **Performance metrics**, such as processing capacity and throughput, that may affect timeliness and be an early warning indicator of stress on the firm's systems;
  - **Program governance status** and senior management reporting;
  - **Vendor management and oversight**, where relevant; and
  - **Change management implementation** success regarding operational, technology, regulatory, and product changes.
- **Exception management and error handling procedures:** Firms should have procedures in place for reviewing settlement breaks and errors in order to rectify issues efficiently and swiftly, given compressed timelines.
- **Vendor management and service-level agreements (SLAs):** Firms should have established procedures to assess vendor responsibilities and performance, as well as for raising reconciliation issues and change control approvals. Firms need to understand impacts on their vendor platforms, what changes will be made, and how they will be implemented and tested.

- **System development and testing:** Settlement systems and other affected applications should follow a controlled system development methodology to minimize risks during implementation. Several iterations of testing will be necessary for firms' internal systems, integrated vendor products, throughput processes, and scenarios (e.g., trade affirmations).
- **Securities netting:** DTCC has proposed that netting the buy and sell trades that occur in a given trading day provides a 98% reduction<sup>3</sup> in payments and securities movement necessary to settle transactions. Discussions regarding T+0 settlement should take into consideration the need for market close to provide full trading activity for netting purposes.

There are other areas that will affect a firm's transition to an accelerated settlement cycle. We recommend firms develop a comprehensive plan to conduct analyses of the various impacts; develop implementation schedules to meet a future-state implementation deadline; and begin allocating resources for the program management, technology enhancements, and process improvements required for a potential transition to a shortened settlement cycle.

## Endnotes:

1. DTCC whitepaper, [Advancing Together: Leading the Industry to Accelerated Settlement](#), February 2021.
2. Securities Industry and Financial Markets Association (SIFMA), "[SIFMA, ICI and DTCC Leading Effort to Shorten U.S. Securities Settlement Cycle to T+1, Collaborating with the Industry on Next Steps](#)," April 2021.
3. DTCC, [Advancing Together](#).

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