# Long Live the New Cash Enabling More Efficient Securities Markets

## CONTEXT

Clients have historically been relatively sanguine about a T+x settlement cycle as that is how the world worked.
Today banks can move money instantly and at size. This has been the case as soon as a country rolled out a RTGS system.

The world has changed and attitudes are changing. As an individual I can pay instantly and the cash is credited to the recipient while I am still on the phone. As a financial firm, if using SWIFT and GPI, the firm can see the money move through the intermediaries in a chain similarly to an individual watching their Uber approach.

At the same time:

a. Atomic settlement is being advertised as a benefit of DLT solutions – whether this is factually the case in the sense of DvP1 is not dwelt on
b. Trading apps (on pre-funded accounts) allow apparent instant settlement
c. The digital native generation is holding investment roles

New cash has the potential to alter the securities markets and make settlement failure (for lack of funds)impossible, render any type of reconciliation obsolete, eliminate the need for 'business hours' and bank holidays, while allowing for atomic settlement (making T+0 simple and obvious). There is further potential to help democratizing access to cash and securities and further automate securities related payments (dividends, funds redemptions, coupon payments).

The advent of new cash incentivizes market changes to the post trade arrangements for securities movements and the securities world response is "maybe we can move to T+1 at some point in the future." Is this where we should be or should Securities Servicers be shouting "Long Live the New Cash Enabling More Efficient Securities Markets"?

To be balanced these are the opportunities but there are also challenges as instant cash requires changes to the fiat RTGS systems , interoperability, instant liquidity management and reporting and interchangeable money in real time, without even discussing time zones and whether clients really want instant settlement where not all legs associated with a trade may move simultaneously.

However thinking expansively and about the possibilities we should break down this question we think about the "future" of cash and securities together:



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## A SAMPLE OF QUESTIONS FOR DISCUSSION

1. As the traditional banking industry evolves to a new real time cash model what will be the opportunities this will bring and how will it specifically help the securities market efficiencies?
2. What are the challenges that we need to work through in the industry to enable real time processing of cash?
3. How does a real time cash change the way we look at Risk – Credit Risk, Market Risk and Operational Risk?
4. With the implementation of DLT technology – concerns lie in the security and safety of maintaining these assets – what do we need to do to prepare?
5. Does the group view reconciliations as obsolete in this context?
6. To what extent does the regulatory regime and client classifications need to be adapted and should they? I.e. should a "retail investor" be given access / be exposed to settlement vs new forms of cash?
7. "Funding" is always considered to be one of the biggest issues within Cross Border trading. Can instant payments alleviate this challenge (and others)?
    a. Two legs to funding:
        i. FX EUR to JPY
        ii. JPY availability in JPY at point of settlement i.e. available resource at the custodian bank
8. Are the consequences different if we talk about a cross border trade?
    a. Can we assume that EUR to buy JPY assets is limited by market-cut off times or does a CBDC assume 24/7/365 availability?
    b. If limited by operating hours could a trade traded done today settle today if the BoJ is open and tomorrow if closed?
    c. Banks have funding deadlines which are not aligned to the central bank operating hours, would instant securities settlement allow the compression of the deadlines if the asset can be pledged on the CB repo line instantaneously?
9. Central Bank issued cash via the "payment banks" and a fractional reserve banking approach or Central Bank Digital Currency (CBDC) or mixture of both?
10. Does truly instant cash movement move from small payments (Consumer to Consumer (C2C)) and large payments (RTGS) to the middle ground presently occupied by the (rapid) batch netting processes of CHIPs, CHAPs etc. and many of the payments in the securities processes?
11. If more payments move to an instant cycle what does that enable for the processes in securities and what does it prevent?