

T+1 Global Aspects Working Group

4, July 2023 Teams Call

Meeting Minutes

Participants: (attendees highlighted in bold)

John	Abel	DTCC
David	Büchler	Liechtensteinische Landesbank
Christopher	Butler	BNY Mellon
Akhila	Chaganti	Deutsche Bank AG
Alex	Chow	The Investment Association
Jennifer	Cryan	Citigroup
Simon	Daniel	SWIFT
Barbara	Domenici	ECSDA
Andrew	Douglas	DTCC
Alex	Duggan	Cognizant
Jonathan	Hartwell	Northern Trust
Kamalakaran	Hiruthayavasan	S&P Global Market
Hannah	Elson	JP Morgan
Prasanna Kumar	Jha	Citibank
Emma	Johnson	JP Morgan
Gareth	Jones	Euroclear SA/NV
Loana	Juka	Erste Group Bank AG
Hector	Lau	HKEX
Heidi	Lee	Deutsche Bank AG
Louis	Lesnika	CIBCMellon
Nicolas	Mallia	ECSDA
Katica	Mandic	Privredna Banka Zagreb d.d.
Douglas	McNaughton	U.S. Bank
Koen	Mertens	KBC Bank
Hui Ying	Mew	Deutsche Bank AG
Marco	Palazzi	Bank Julius Baer & Co. Ltd
Jack	Parker	JPMorgan
David	Petiteville	Royal Bank of Canada
Lars	Scheuerling	Deutsche WertpapierService Bank
Sascha	Schönsiegel	Nexgen
Sladjan	Seferovic	NEXGEN Business Consultants GmbH
Kristi	Sisa	Nasdaq
Jan	Stelzer	Nexgen
AN	Tran Quoc	Standard Chartered Bank
Gabor	Varga	Swiss Re

Damien	Veillard	BNP Paribas
Deepa	Viswanathan	Deutsche Bank AG
Frank	Wang	Deutsche Bank AG
Haroun	Boucheta	BNP Paribas (Co-Chair)

Bill Hodash, Colin Parry (PMO)

Agenda

1. Introductions and Welcome
2. India's Experience in Moving to T+1
3. AOB

Introductions and Welcome

Introduction

Colin Parry called the meeting to order, introducing the co-chair, Haroun Boucheta and a new member of the ISSA Team, Bill Hodash, who will be the PMO for the T+1 WG going forward. Haroun and Colin stated the sole topic for this meeting: A discussion led by representatives of Citi in India about that country's move to T+1 settlement for equities and the lessons learned that might be relevant for this T+1 Global Aspects WG.

Section 2

Introduction

Prasanna Jha of Citi led the discussion making the following key points and opening the floor for questions/discussion. Prasanna made clear the origins and driver of the initiative, the impact on the market and on the market participants, and the results immediately upon implementation and the current state.

Key Points Addressed

Prasanna covered the following key points:

Pre-Implementation

- The move to T+1 was not proposed by the industry but was announced by the regulator, the Securities and Exchange Board of India (SEBI), in October 2021.
- The market infrastructure institutions (MII which includes Exchanges, Depositories, Clearing Corporations) were tasked to operationalise and they started preparing.
- Industry Associations expressed concern, but those were cleared up once the roadmap became clear.
- The largest initial concern was the impact on international investors due to time zone differences which were much more critical in the one-day settlement environment.
- Getting all front office (Block Trade/Execution Notification) actions; middle office actions (allocations, confirmations/affirmations/matching) and back-office actions (arranging funds and instructing custodian and custodian instructing sub-custodian) all in a very short time period with time lost to time zone differences was thought to be very challenging and success of T+1 hinged on the ability of the market to allow clients longest possible to complete their full action.

International Securities Services Association

- A second concern was the FX market to buy/sell local currency to position it for settlement given the market closes at 3:00 pm. The bulk of the available liquidity was much earlier in the day. While FX could be quoted later, same day FX liquidity would not be available.
- As per the original plan provided by the CCP, for the CCP interactions, a 21-hour process was to be collapsed to 4 hours with all confirmations/ affirmations to the CCP by 7:30 p.m. a time at which the FX market for same day settlement to fund margin/ consideration was not available, and customers' offices in Japan and Australia are closed but all firms would be expected to instruct and post margin. All this was considered to be quite a challenge.
- The market participants, brokers and custodians went to the MIIs and SEBI to say the 7:30 p.m. cut-off would not work.
- After discussion of all the cross-border impacts, SEBI decided the cut-off would move to 7:30 a.m. on T+1 with all cash consideration paid in by 10:30 a.m. The concept of margin to be paid ahead of settlement consideration was done away with. Plus, brokers would need to ensure they had enough cash at the CCP in case some of their clients' trades were not confirmed/ affirmed (thereby owning responsibility to settle) by their customers' custodians.
- Colin Parry asked if this extra cash to cover potential fails was significant. Prasanna said he did not know but would try to find the answer and let the WG know.

Post-Implementation

- Upon implementation of T+1 settlement, the fail rate did increase significantly from the general below 1% (0.6% rate as quoted earlier) prior to the move to T+1 getting to higher levels initially, but it has subsequently subsided.
- To help brokers in case of failed trade confirmation by customers' custodians, brokers are requesting their clients to fund trades much earlier and to allow custodians to move securities to them even if the trades are not paid for. The existing process has been that custodians transfer securities to broker only on receipt of cash.
- Haroun asked about the scope of the products. Prasaana said it was equities, ETFs. Government securities had already moved to T+1 settlement.
- Custodian banks used to book FX for clients before trade confirmation but is now performing it after confirmation with almost all of it being same day FX execution on T+1, not on T.
- Some intraday risks have been introduced and the industry has met with SEBI about that.
- Haroun mentioned that some jurisdictions are looking to perform a cost benefit analysis of the potential move to T+1 and asked if India had done one. Prasanna said there was not a formal one but emphasized the human aspects of T+1 with people having to start the morning shift much earlier at 4:00 a.m. rather than 9:00 a.m. plus they have virtually no time to clear trade mismatch exceptions prior to confirmation of trades at 7.30am. What was fixable in a T+2 environment is not fixable in T+1.
- All in all, efficiencies are up, but there is higher risk in the banking system as against T+2 settlement due to intra-day exposure and parting of cash before receipt.
- Kamela asked if there was an impact on corporate actions. Prasanna answered that initially there were concerns about the same security trading on the two exchanges, with one on T+2 and the other on T+1 but this evaporated when the two exchanges agreed to synchronize settlement periods on each individual equity during the transition to T+1.

- Colin asked if the stock loan business has been negatively impacted. Prasanna said there has not been a big impact.
- Bill asked if Citi could provide statistics on the amount of trading in India that is driven by domestic customers vs. customers outside the country. Prasanna said each custodian has a different mix of business, but he would ask the market infrastructures for these statistics and try to provide.

Follow Up Actions

- Prasanna to provide the WG participants with statistics showing the volume of trading in India that is domestic vs, cross-border.
- Prasanna to try to provide the WG participants with the amount of extra capital the brokers are posting to deal with mismatched trades/potential fails.

AOB and Close

Introduction

No other business raised. The meeting was then closed.

Summary of Follow Up Actions

No.	Action Description	Responsibility	Deadline
1.	Provide statistics to the WG participants showing the volume of trading in India that is domestic vs, cross-border	Prasanna	31 July 2023
2.	Provide the WG participants with the amount of extra capital the brokers are posting to deal with mismatched trades/potential fails.	Prasanna	31 July 2023