T+1 Global Aspects Working Group

18, 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
Hannah	Elson	JP Morgan
Jonathan	Hartwell	Northern Trust
Kamalakannan	Hiruthayavasan	S&P Global Market
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
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Kristi	Sisa	Nasdaq
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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. GFMA Paper Issued in May/June and European T+1 Task Force draft Paper on Global Impacts of U.S. T+1 Initiative
3. Next Steps for ISSA T+1 WG
4. AOB

Introductions and Welcome

Introduction

Colin welcomed the WG members and called the meeting to order. Bill Hodash reviewed the agenda, which called for reviewing two recent papers on global impacts of the U.S. T+1 initiative and in light of those what the ISSA WG's next steps should be.

GFMA and European Task Force Papers

Bill described the GFMA Paper entitled "FX Considerations for U.S. T+1 Settlement" dated May 2023, (though we did not learn of it until June.) and the draft paper by the European T+1 Task Force entitled "Key Challenges of U.S. T+1 for Europe". It was noted that Colin and Haroun are members of the European Task Force and have commented on the content of their draft paper. Colin distributed the draft to the ISSA T+1 WG members as well as to the ISSA Board members as ISSA was asked to provide its logo for the paper as one of the endorsing industry associations. No objections to ISSA endorsing the paper have been received, thus ISSA plans to endorse it. It was noted that Colin sent one last comment on the paper from ISSA asking that the TF offer to the Authorities to represent the European Securities Industry to work with counterparts in the U.S. and Canada and Asia as well as industry associations in the FX/Payments industry to design and implement solutions to the issues/obstacles documented in the draft paper.

Alex Chow reported that members of The Investment Association are very concerned, especially with the FX obstacles. He noted that CLS' cut-off to enter an FX trade to be settled "Payment vs. Payment" (PVP) on the next business day is 6:00 p.m. NY Time/10:00p.m. European Time zsnd that CLS member banks generally cut-off two hours earlier at 4:00 p.m. NY Time/8:00 p.m. European Time. This is very problematic as the equity markets in the U.S. close at 4:00 p.m. NY Time/10:00 p.m. European time at which time executing brokers issues final execution notices and then investment managers begin the process of allocating those trades, all typically before looking to execute the FX trades for each institutional investor to be allocated shares, as FX pricing/execution is typically at equity market close. To date there has been no movement from CLS regarding the possibility of extending their cut-off.

This will cause a great deal of the FX volume related to US equities trading to move back to gross bilateral settlement. Investment Association members have been asking custodians to extend cut-offs but they are constrained in doing so due to the CLS cut-off. Discussions have taken place with CLS who have noted that securities related FX only amounts to about 0.6% of overall FX transactions settled by CLS and any change would have to be proposed by its membership, and approved by its Governance and its regulators, thus would be a lengthy process extending well past the May 2024 planned implementation date for the U.S. equities markets. It was noted that much FX volume may not be clearly identifiable as related to securities transactions, including FX placed by the custodians for the institutional investors rather than being executed by the investment managers directly with FX dealers.

Damien pointed out that the papers indicate that more prefunding of FX may be necessary. Colin responded that asset managers would see this as a bad result in that locking up liquidity is costly. David indicated that this will cause asset managers to significantly tighten up cash management practices. Bill asked whether prefunding FX trades for the institutional investors implied that the equity trades themselves need to be pre-allocated. Several members agreed that it might and that is a real issue as there are a host of reasons why asset managers will not pre-allocate their block orders of equities.

Haroun observed that many U.S. equities related FX trades will miss PVP settlement and incur additional settlement risk and that there may be additional balance sheet costs for the executing parties as a result. Colin offered that there is another service at CLS called CLSNow that targets FX trades with settlements shorter than the traditional T+2 Spot Market convention. Alex added that the CLSNow service does provide bi-lateral netting, but no PVP settlement at this time.

Emma suggested that the WG members discuss these subjects with their FX experts to come up with the appropriate questions the WG will have for Dan Lennon of CLS when he attends a future WG meeting (August 15). Colin agreed asking all members to do so before the next meeting on August on August 1.

Follow Up Actions

It was agreed that the ISSA WG will continue its work towards publishing a paper on the Global impacts of any T+1 implementations. Bill offered that perhaps one recommendation is already clear as a result of these significant global FX/Funding issues and obstacles being drilled into now, 10 months prior to the U.S. implementation date: any domestic markets considering a shortening of their settlement cycles to T+1 should proactively reach out to both the securities industry in different regions of the world and also to the FX/Payments industry to discuss potential challenges before they set a target date for implementation and well before their securities market regulator codifies that implementation date in rulemaking. Colin agreed saying something along those lines should be the first best practice recommendation.

It was agreed that the two next steps for the WG were:

- Members to meet with their FX experts on the FX issues raised in the GFMA Paper and European Task Force's draft paper to get their views as well as questions they think we should ask CLs prior to Dan Lennon meeting with the WG on August 15. Bill will start drafting the questions that came out of today's meeting and distribute that for additions by all members. We will look to finalize the questions at the next WG meeting on August 1.

- Colin and Bill will work on a diagram depicting the most pertinent cut-offs for both FX trades and U.S. equity trades to graphically depict the dependencies and the obstacles that will potentially cause the higher costs and risks for global investors in U.S. equities if mitigating actions cannot be taken. That diagram will be discussed in the next WG meeting on August 1.

AOB and Close

Introduction

No other business raised. The meeting was then closed.

Summary of Follow Up Actions

No.	Action Description	Responsibility	Deadline
1.	Members to meet with FX experts in their firms on the FX issues raised in the two papers and also to document any questions the WG should ask CLS.	ALL WG Members (Bill to start the list of questions)	31 July 2023
2.	Diagram the pertinent cut-offs in both the FX and U.S. equities markets that cause the obstacles discussed by the two papers	Bill and Colin	31 July 2023