T+1 Global Aspects Working Group Call

1, August 2023 Teams

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
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**
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
Hannah	Elson	JP Morgan
Haroun	**Boucheta**	**BNP Paribas (Co-Chair)**

Bill Hodash, Colin Parry (PMO)

Agenda

1. Introductions and Welcome
2. S&P Global Paper on T+1 Impacts
3. Update on European Task Force Paper on Impacts to European Firms of U.S. Move to T+1
4. Draft Questions for CLS
5. AOB

Introductions and Welcome

Introduction

Bill Hodash called the meeting to order and reviewed the agenda for the meeting and introduced Kamala as the first speaker.

IS&P Global Paper "Ready to Settle: Getting Ready for T+1 and Beyond.

Kamala **Hiruthayavasan** of S&P Global summarized the main points made in the paper.

Key Points Addressed

Kamala covered the following key points:

- S&P partnered with Global Custodian on a poll of market participants via Linked in about readiness for T+1
- Key issues raised by market p[participants included the reduced timing to handle exceptions, corporate actions, especially covers of protect instructions, stock loan returns and FX/Funding.
- Figure 1 shows that only 12% of poll respondents are ready for T+1 now, 48% are "on track" and 41% are just at an early stage.
- Figure 2 shows that 52% of poll respondents believe the most efficient settlement period for the industry is T+2, 33% believe it is T+1 and 15% believe it is T+0.
- Figure 3 shows that 54% of poll respondents believe that progress towards being ready for T+1 will be via Regulation, 23% believe via education and 24% believe it will require peer pressure.
- Figure 4 shows that 67% of poll respondents believe that legacy technologies including batch processes and manual SSIs and faxed allocations are the leading cause of the delay in preparedness, while 22% believe market infrastructures are holding it up and 10% feel they have a lack of resources to commit to the initiative.

- Figure 5 shows that beyond settlement, 38% of poll respondents are most concerned on T+1's impact on Corporate Actions, 33% on FX, 27% on Securities Lending and 3% on Proxy Voting.
- Figure 6 shows that alongside the move to T+1 for securities settlement, 60% of poll respondents believe the FX Spot settlement market should move to T+1, 25% believe FX should move to T+0 and only 16% believe FX should stay with T+2 with securities trades being prefunded.
- Figure 7 shows that 62% of poll respondents believe that European Regulators should speed up the process of planning for T+1, 31% believe the European Regulators should remain at the same pace and7% wish that they would slow down the pace.
- While not the purpose of this presentation, S&P Global's paper does discuss how they can help clients with some of these obstacles, but Bill Hodash pointed out that there was no discussion in the paper of any potential solutions to the FX issues if FX remains mainly a T+2 settlement market.

3. European Task Force Paper on the Impact of U.S. and Canada T+1 on European Firms

Haroun covered the following key points:

- The paper was finalized and sent to ESMA and the EC as a non-public, private paper. The paper was not sent to the SEC at this time as their rules would have required them to publish it publicly.
- Fifteen Industry Associations endorsed the paper, including ISSA and they are listed in the Appendix to the paper.
- This paper is an important input to the Next Step: In September, ESMA will publish a call for evidence of the impacts on European securities market participants on U.S./Canada T+1 as well as the costs and benefits of Europe eventually moving to T+1 in its own securities markets.
- The Task Force paper analyses U.S. Market Structure, identifies the large portion of U.S. equities which are held by non-U/S. investors and particularly those in Europe, the key structural differences between U.S. and European securities markets and then focuses on the key challenges/impacts of the move by the U.S. and Canada to T+1, chiefly Time Zone issues, allocation and affirmation deadlines for European firms and FX/Funding issues related to the misalignment of T+1 with the FX Spot Settlement period of T+2. The paper then discusses the issues related to the misalignment between U.S. and Canada's securities markets and Europe's which will remain at T+2.
- Bill asked if the ESMA process will be a public one. Haroun answered that it would be public and that he anticipates ESMA will call for evidence on T+1 ESMA in September and that the TF will respond to it.
- Discussion illustrated that while in the U.S. T+1 is being driven by the securities market regulator, the SEC that has finalized a Rule that mandates T+1 settlement for U.S. securities by the end of May 2024, in Canada and Mexico, the T+1 initiative is being driven by the industry.
- Discussion also led to Louis and Haroun agreeing that the SEC will not change the T+1 implementation date unless the industry-wide testing that commences this month uncovers significant unanticipated issues that will take considerable time to resolve. It was also the consensus of the discussion that Europe will not decide to move to T+1 any time soon, so the period that the markets will be misaligned will be a lengthy one.
- Bill asked when the Task Force Paper's key findings might be discussed with the SEC. Haroun answered that he believed it will be shared informally with them at the Eurofi Conference in September where T+1 will be on the agenda.
- Haroun also made clear that this Task Force Paper does not take a position on T+1 for Europe. Another paper will commence soon on that topic.

- Haroun agreed to send the final European Task Force Paper to the WG members, stressing that it is a private paper, thus it cannot be distributed further, it is provided to the WG members as ISSA endorsed it and it can help the WG perform work towards ISSA's own T+1 Paper.

4. Draft Questions for CLS

Bill covered the following key points:

- The draft questions were only circulated the day before the WG meeting, so members are asked to send any suggested additions or edits to Bill by COB Friday.
- Bill thanked Haroun and Alex for their suggested edits.
- The questions will be sent to Dan Lennon of CLS on August 7 asking him to send any quick answers in writing but to attend the WG's September 12 meeting to discuss the answers to the questions in depth.
- The current draft questions for CLS are as follows:

FX Market Liquidity

What percentage of all FX daily spot T+2 Volume relates to funding securities trades? Any differences among the various currencies?

- What percentage of all FX volume is executed in the Spot FX market with T+2 settlement? What percentage is executed for T+1 settlement? What percentage is executed for same-day settlement?
- What is the temporal nature of execution for each of T+2, T+1 and sane day settlement trades? (i.e., what portion of the trading is done in various times of the day?
- What is the execution quality (spread size) for trades done in the spot T+2 settlement market versus in the T+1 settlement and same-day settlement markets?
- Are there any regulations regarding best execution for FX trades? If so, what do they require?
- With T+1 (or T+0), do we expect a more pre-funding market? If yes, what may be the impacts on the settlement risk?

PVP Settlement (CLSSettlement)

- What is the last time an FX trade can be submitted to CLS for netting and PVP settlement the next day? (We understand it to be 6:00 p.m. NY time/Midnight CET/7:00 a.m. on T+1 Tokyo time, though it should be noted that Custodian Banks generally cut-off a couple hours before making it effectively 4:00 p.m. NY time for their customers)?
- Do you expect T+1 will increase pressure around this cut off time?
- Has any domestic securities market requested that CLS explore shifting this cut-off time significantly later? If so, what was the result of the exploration?
- What is the size of the balance sheet relief for each counterparty for trades that are netted and run through PVP settlement?
- Are there any regulations that require all or a high proportion of a dealer's FX trade volumes to be run through PVP?
- Does the CLSNow service provide a different avenue for PVP settlement of same-day settling FX trades? Is the balance sheet relief similar than that for trades submitted to CLSSettlement? What volumes are currently processed in CLSNow? How much of that volume is related to funding securities trades?
- Has CLS been engaging any buy-side firms/institutional investors on T+1? If so, can you share the views you have heard?

Market Trends/Drivers

Are there any drivers or trends in the FX markets (e.g., the advent of various digital currencies) that might cause the market to explore moving the spot market to T+1 settlement? What would be the benefits to the FX market players and what would be the disadvantages/costs/risks?

- Are you in touch with authorities willing to have more information on T+1 impacts?

AOB and Close

Introduction

No other business raised. The meeting was then closed.

Summary of Follow Up Actions

No.	Action Description	Responsibility	Deadline
1.	Distribute the final European Task Force Paper to WG Members stressing the private nature of the paper and need to not distribute it further	Bill	7 August 2023
2.	WG members send to Bill any suggested new questions or edits to draft questions for CLS.	WG Members	4 August 2023

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