22nd ISSA Symposium - Context Document

Breakout Session 3: Accelerated Settlement

HYPOTHESIS

ISSA believes that following the successful T+1 implementation in major capital markets centres that the remaining T+2 jurisdictions will move to T+1. It is now a question of 'when not if'.

ISSA expects that attention will progressively move towards T0, especially should substantive progress be made by one of the larger economies in moving to a central bank digital currency. Business cases will focus on the comparison of the marginal benefits of going from T+1 settlement to various forms of flexible settlement, including T0 settlement. This could be real-time gross settlement at the point of trade, end-of-day settlement following multi-lateral netting, or potentially other models including atomic settlement. Benefits will be weighed against the investments required in new market practices. These include investments related to trading and funding of settlement for cross-border trades and, perhaps, the new technology platforms needed to facilitate such a move. ISSA makes no prediction as to the outcome of these investigations, except that - by 2030 - we expect a consensus on whether there is a compelling case for moving forward in the future to flexible settlement, including T0.

The Accelerated Settlement Breakout Group should explore T0. Such an initial analysis could simply identify the multiple models for T0 settlement, their characteristics, their benefits beyond T+1 settlement, their drawbacks, their implementation challenges, including the extent of redesign of liquidity/funding, trading and post-trade processes, leading up to settlement of equity trades on T0.

The objective of the Breakout Session will therefore be to dialogue around this theme, reaching consensus on the main models of T0 settlement and their characteristics and to prioritize the areas which might be impacted most significantly by a move to T0 settlement, under each model in particular for cross-border transactions.

The Breakout Session will then split into two sub-groups to discuss the following two sub-themes in greater detail:

- Funding, FX and Liquidity
- Processes and Data flows

PRE-READING

Breakout Session participants should read the following collateral to familiarize themselves with the hypothesis prior to the Symposium:

ISSA-T1-Global-Impacts

ISSA – Future of Securities Services 2024 – 2030 (Accelerated Settlement Section Only: Pages 43 – 45)

Regulator-and-Task-Force-Statements-on-T0.docx

T+1 After Action Report (pages 7 and 8)

ISSA Potential T Zero Settlement Models

IDEAS FOR CONSIDERATION

Below is a list of ideas that the Breakout Session participants may wish to consider during their discussions:

- Are the potential models correct or are any missing?
- Below is a list of areas of impact identified by the Accelerated Settlement Working Group, that the Breakout Session participants may wish to consider and prioritize during their discussions.
- Participants can also add and prioritize areas they feel should be analysed by the Working Group

The two sub-theme groups will deal with a set of topics then combine to provide the holistic view.

Funding, FX and Liquidity covering:

- **Domestic Funding**
  - Cash Funding/Liquidity for domestic investors, both institutional and retail including availability of and access to funding, cost of funding, timing of funding
  - Dealer/market maker liquidity
  - Capital required by various segments to support equity trading and settlement
- **International Trading and Funding**
  - Cross-Border trading by both retail and institutional investors - - Time Zone and FX considerations
  - Cash Funding/Liquidity for international investors both retail and institutional
  - Sourcing of inventory and PSET
- **Short Selling/Stock Loan/SFT**
  - Short-Selling
  - Stock Loan - - Borrows/Recalls/Returns
  - Other securities financing transactions
- **Technology**
  - Overall Technology Stack and Software to support the changes to all the above for each major segment of players

Processes and Data flows covering:

- **Trading/Allocations/Confirmations**
  - Orders
  - Executions
  - Post-Trade Processing including allocations, confirmations and trade agreement between the two trading parties for institutional trades
- **CCPs and CSDs**
  - Role of CCPs and CSDs
  - Instructing Settlement Agents
  - Settlement Agents instructing CSDs
  - CSD settlement process
  - Impacts on margin and collateral requirements

- **Funds**
  - Mutual Funds, ETFs and other baskets – domestic and cross-border
- **Asset Servicing**
  - Corporate Actions
  - Proxy Voting
- **Technology**
  - Overall Technology Stack and Software to support the changes to all the above for each major segment of players
- **Regulatory**
  - KYC/AML process including timing
  - Regulatory support required
  - Transaction transparency to regulators

Models for T0

Three potential T0 models are provided for consideration below:

- **Multilateral Netting (for Market Side Trades) with Accelerated Timeline**
  - Adapts existing T+1/T+2 infrastructure but compresses all processes into same-day timeline
  - Requires significant automation and processing capacity upgrades
  - End of Day Net Settlement and may also include multiple intraday settlement windows
  - Can use existing cash payments systems for cash side of DVP or digital currency networks including Stablecoins and CBDCs once they are introduced
- **Real-Time Gross Settlement (RTGS)**
  - Settles each transaction (market side and institutional/buy-side) individually in near real-time
  - Eliminates multilateral netting and end of day cash netting benefits and decreases but does not eliminate counterparty risk
  - Requires higher liquidity and operational resources
  - Can use existing cash payments systems for cash side of DVP or digital currency networks including Stablecoins and CBDCs once they are introduced
- **Atomic Settlement via Distributed Ledger Technology (DLT)/Blockchain**

  - Available for traditional instruments as well as digital assets
  - Utilizes smart contracts for automated trade execution and settlement
  - Can enable atomic settlement (delivery vs. payment occurring simultaneously) if the currency (traditional central bank funds, CBDCs, or other digital cash including Stable Coins) is available on-chain
  - Eliminates multilateral netting and end of day cash netting benefits but removes counterparty risk
  - Requires higher liquidity and operational resources
  - Potentially reduces intermediaries and reconciliation needs

Two further models, which comprise components of the three models outlined below, include:

- **Central Bank Digital Currency (CBDC) Integration (May not be a separate "model" but a feature of the three models above)**

  - o Uses digital central bank money for instant payment finality
  - o Could work with either traditional or DLT infrastructure and any of the above three models
  - o Provides instant cash settlement side of transactions

- **Hybrid/Phased Models (Not really a separate model, but a phased implementation of one of the first three models above)**

  - o Implements T+0 for certain security types or market segments initially
  - o May offer optional T+0 alongside existing T+1 settlement
  - o Often includes specialized liquidity provision mechanisms

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