

# FX settlement: The move to T+1

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[cls-group.com](https://www.cls-group.com)

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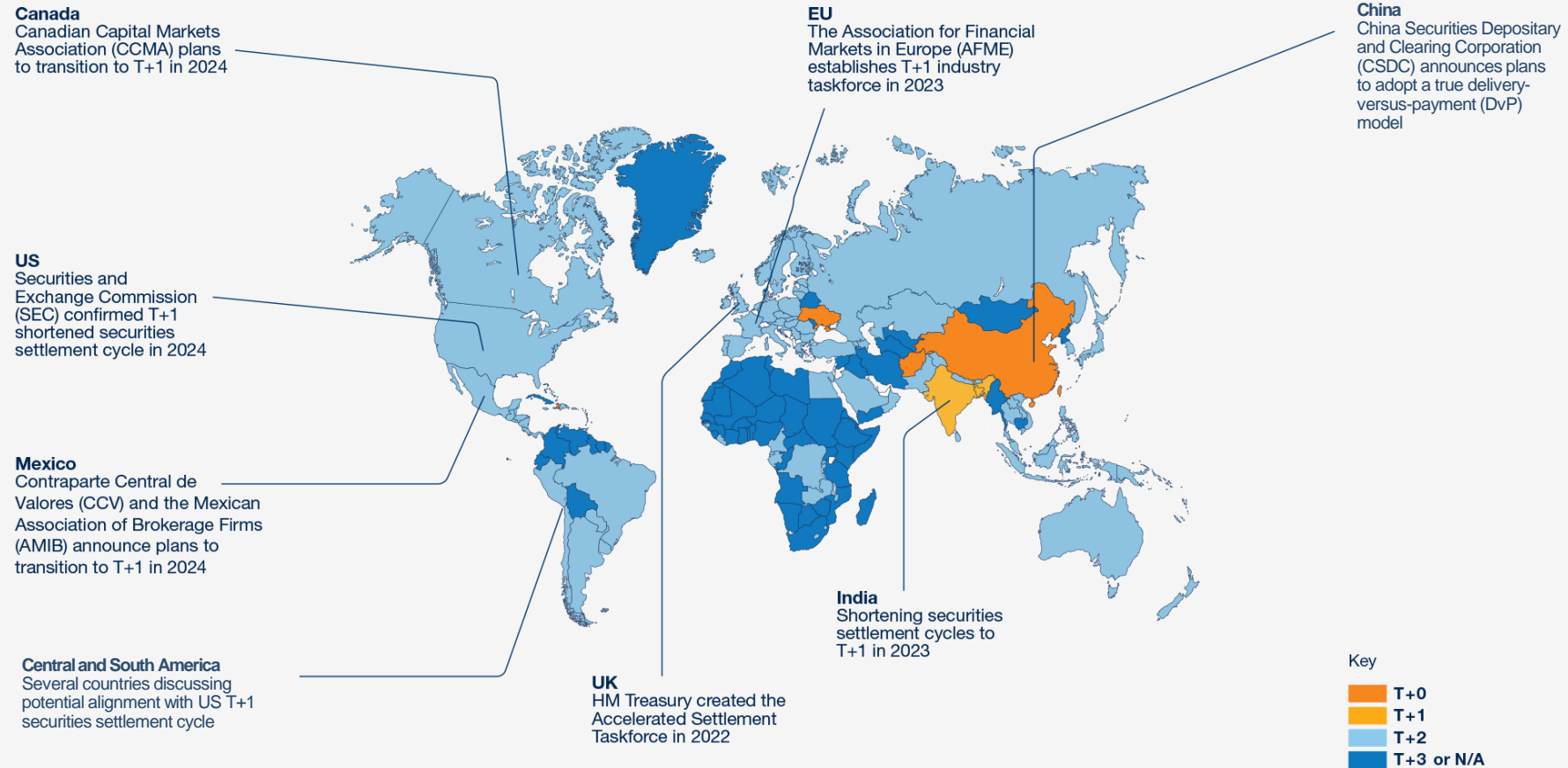
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## Potential impact of T+1

# A changing landscape

### Adoption of T+1 in the securities market is accelerating



Source: [swift.com/news-events/news/work-friction-drivers-towards-seamless-securities-settlement](https://www.swift.com/news-events/news/work-friction-drivers-towards-seamless-securities-settlement)



## Potential impact of T+1

# Shortening of securities settlement cycles in the US

This will impact FX post-trade processes

### Cross-border transactions



- 20% of US securities and 16% of US equities held in foreign portfolios\*
- US T+1 rule will impact many cross-border transactions

### Additional risk



Shortening securities settlement cycles may introduce additional risks (shorter timeframe to perform post-trade processes)

### Settlement cycle



Settling cross-border securities on T+1 means the FX component of the transaction needs to be settled **prior** to the settlement of the security

### Collaboration



Closer coordination of security and FX settlement is required

\* Department of US Treasury, "Foreign Portfolio Holding of US Securities", 30 June 2022.



## Potential impact of T+1

# How the market may adapt

## Trading implications

- Equity transactions typically executed:
  - Across the US equity trading day, VWAP with execution confirmation on US market close
  - Trade at US market Open
  - Trade at US market Close
- Some FX T+2 activity will move to a T+1 basis, and potentially some T+1 move to T+0
- Cross-border market participants may wish to move to same-day FX execution to secure the required liquidity

## Post-trade processes

### **Operational cut-off times:**

Custodians' cut-off time for their clients' payment instructions to be included in CLS Settlement's initial pay-in schedule is currently 00:00 CET

### **Changes to post-trade processes:**

Compressed timelines introduce additional challenges with regard to post-trade processes



## Potential impact of T+1

# Insight into the scale of the challenge on the US move for the buy-side

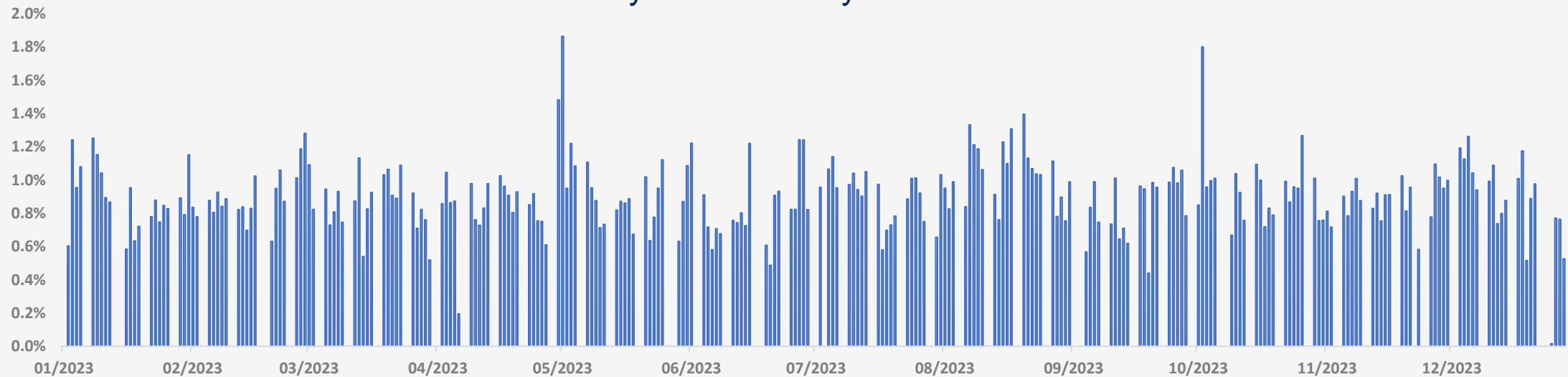
## CLS transaction data analysis

1%

of CLS Settlement  
average daily settlement  
value\* (ADV) executed  
on a T+1 basis by funds

CLS analysis of its transaction data showed that a value equivalent to approximately 1% of the CLS Settlement average daily settlement value is executed on a T+1 basis, comprising volumes where one side is USD and a fund is party to the trade.

Distribution across 2023 by % of T+1 buy-side transactions for settlement.

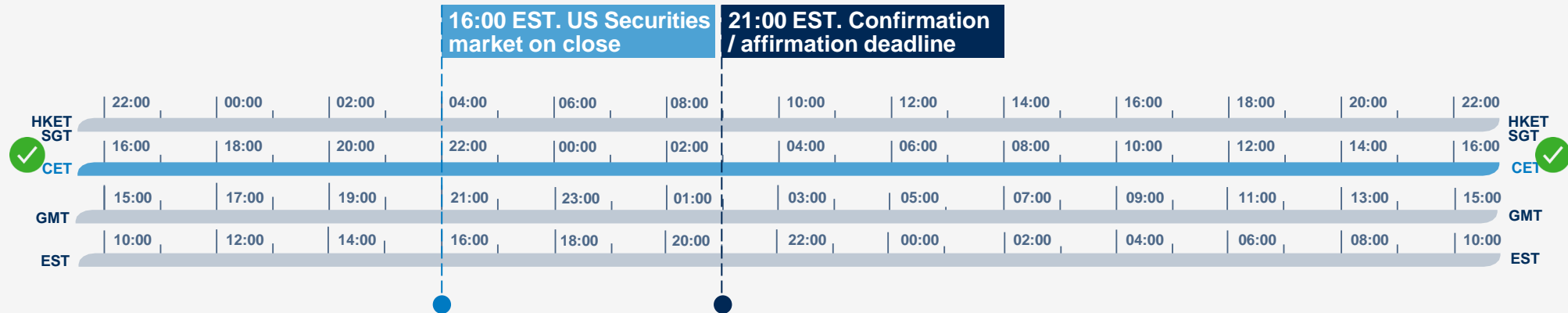
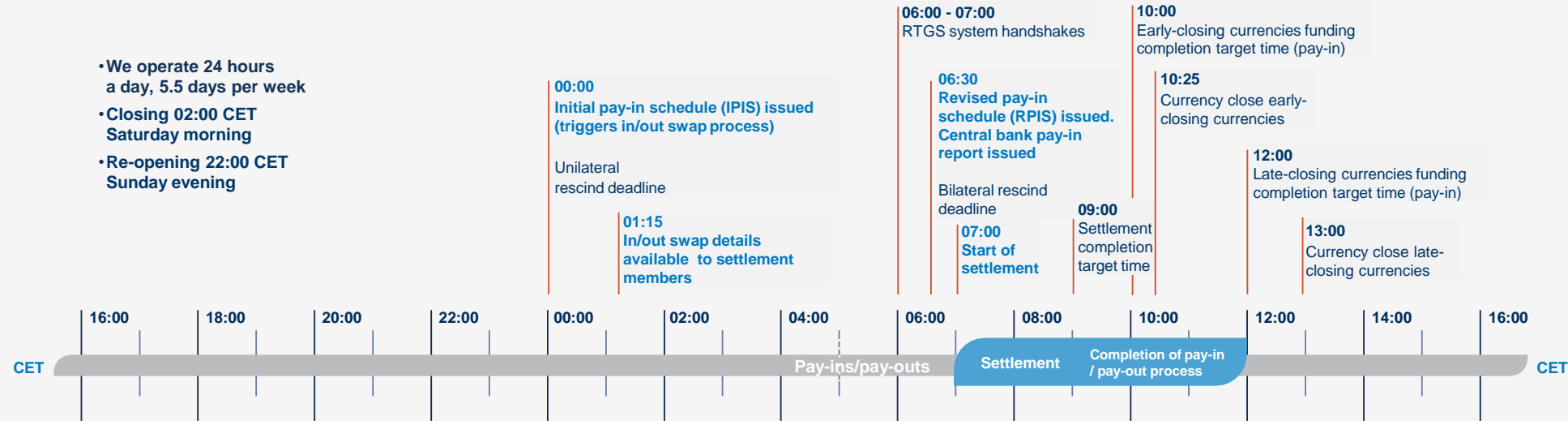




Potential impact of T+1

# CLS operational timeline

- We operate 24 hours a day, 5.5 days per week
- Closing 02:00 CET Saturday morning
- Re-opening 22:00 CET Sunday evening





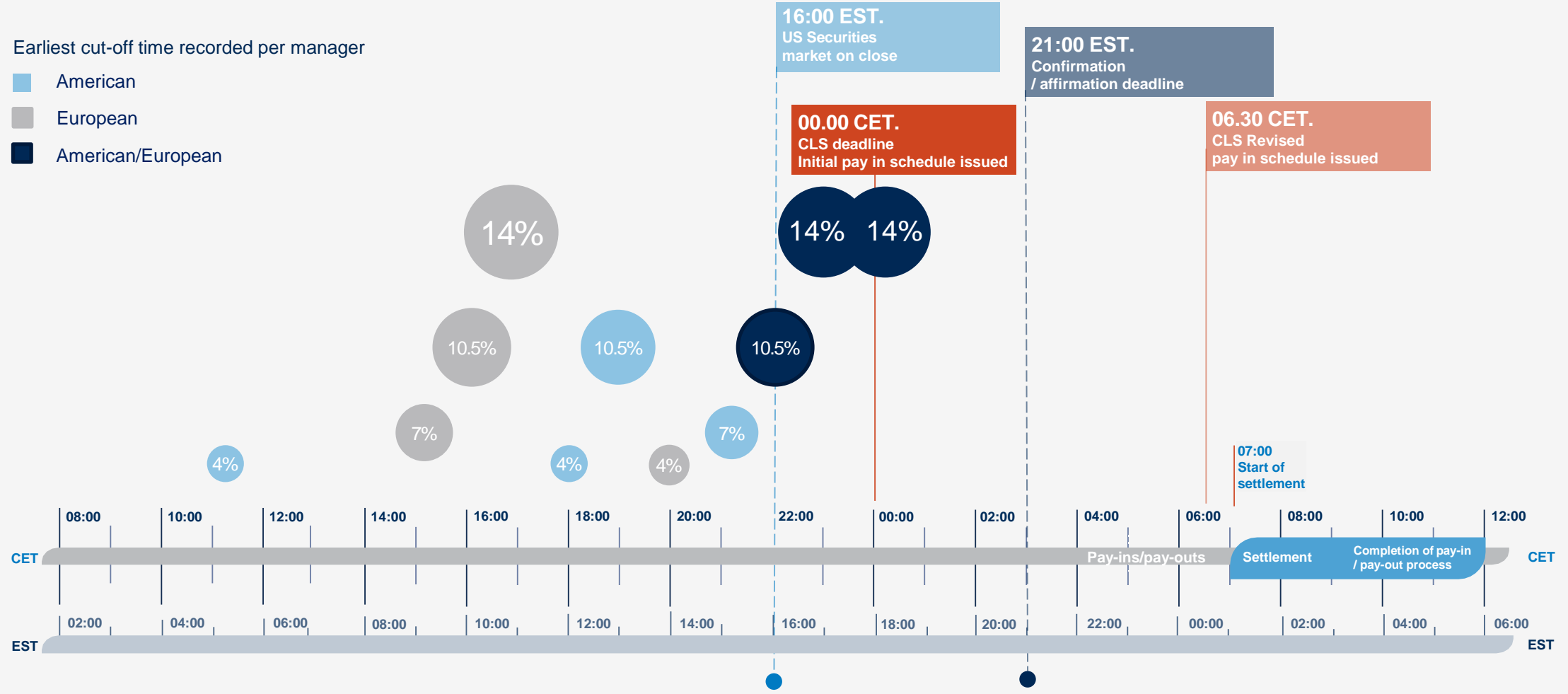
Potential impact of T+1

# Asset managers cite a varied range of custodian cut-off times

## Percentage of respondents who provided timing

Earliest cut-off time recorded per manager

- American
- European
- American/European





## Potential impact of T+1

# Fund driven FX execution in a T+1 world

## Alternative solutions

The compressed security cycle has led to a re-evaluation of current FX execution practices to fund US securities

### Execution options

Estimate and execute FX at time of equity execution (T+1) and 'true up' FX requirement once equity trade confirmed (T+0)

Execute FX once equity trade confirmed (T+1) inc. pre-fund

Execute FX once equity trade confirmed (T+0)

Increase custodian execution or outsource

Expect no change to current FX processes

Opening new location

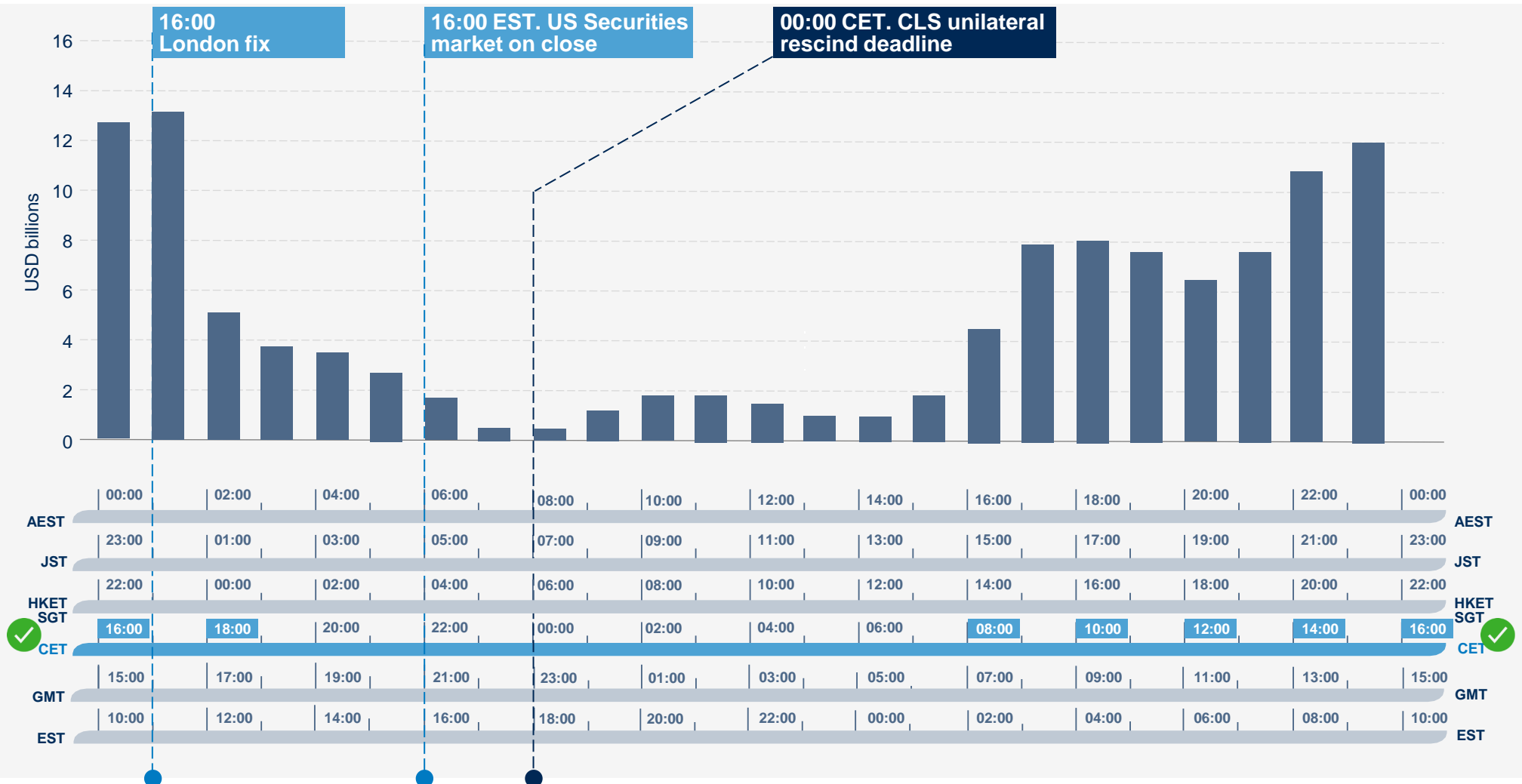
Solution yet to be defined



Potential impact of T+1

# EUR/USD Spot volume curve: Jan-Aug 2023

Source | CLSMarketData












## Potential impact of T+1

# Asset manager insights into impact

## Alternative solutions

- >500 asset managers globally use CLS Settlement
- CLS is engaging with the asset manager community to provide feedback to a series of questions on impact
- A third have indicated active involvement in internal T+1 working groups

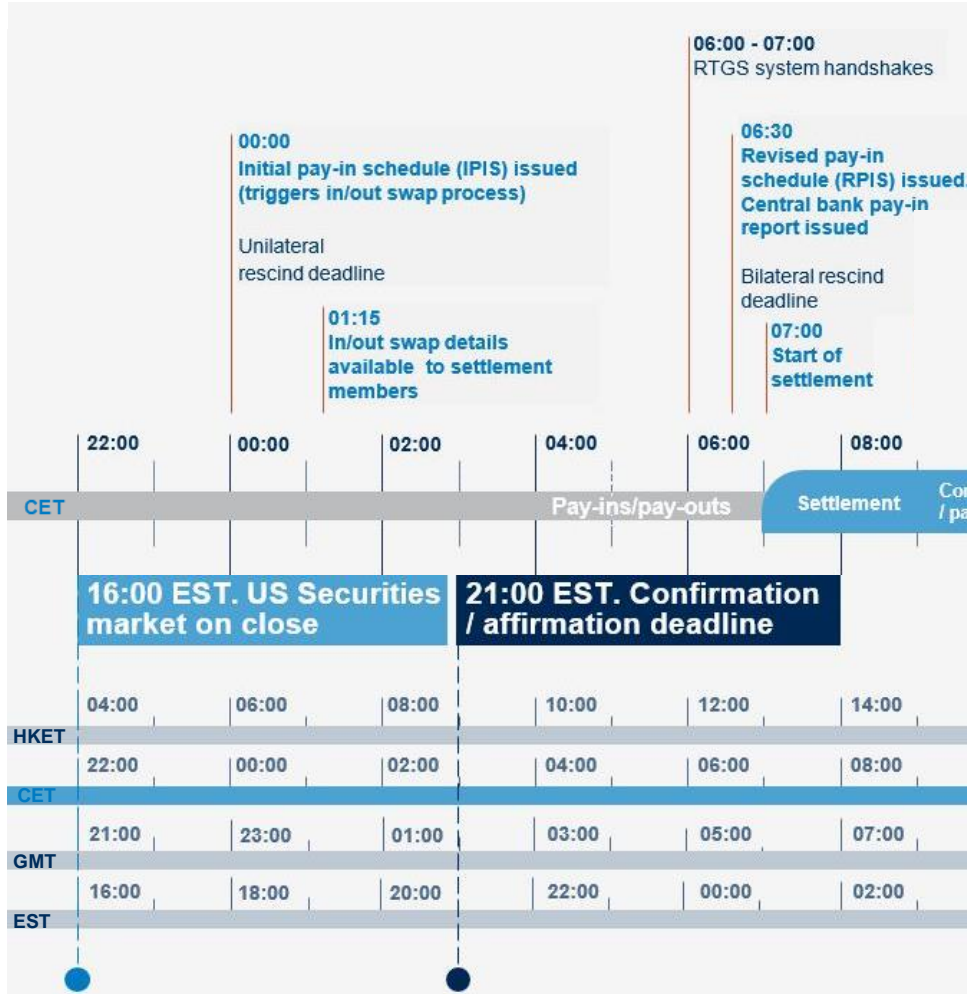
Execution options	Feedback to date	Majority of risk can be mitigated through CLS
Estimate and execute FX at time of equity execution (T+1) and 'true up' FX requirement once equity trade confirmed (T+0)	11.0%	
Execute FX once equity trade confirmed (T+1) inc. pre-fund	17.5%	
Execute FX once equity trade confirmed (T+0)	11.0%	
Increase custodian execution or outsource	3.5%	
Expect no change to current FX processes	20%	
Opening new location	2%	
Solution yet to be defined	35.0%	



## Potential impact of T+1

# How is CLS supporting the industry

## Assessing the feasibility of adapting the service



## Members

Is a change to IPIS timing manageable without impacting safe settlement and/or the 99% ADV unaffected by T+1?

If so, by how much? (30 minutes to 90 minutes under discussion)

How long will it take to make the necessary changes?

## Regulators

Any outcome that supports a change will need approval by our supervisors.



## Potential impact of T+1

# Will the EU & UK follow the US move to T+1 for securities?

## The UK discussion

UK Accelerated Settlement Taskforce created in 2022

Update in December 2023:

- Acknowledgement that the move to T+1 would be a catalyst for the industry to invest in automation and update systems and processes
- Widespread industry support for a two-phased approach:
  - **Phase 1** – Impact analysis and establishment of market standards (Technical group established to evaluate costs and benefits, potential drawbacks of not moving to T+1 and the potential risks of misalignment with US and EU)
  - **Phase 2** – Transition to T+1

Reaching a consensus on a specific date has proven challenging.

Opinions range from minimizing the period of misalignment with the US (May 2024), to aligning with the EU (no set timeframe)

A final report is expected in Q1 2024



**CLSSettlement  
average daily  
settlement value\*  
(ADV) executed  
by funds on  
a T+1 basis  
involving GBP**



## Potential impact of T+1

# Will the EU & UK follow the US move to T+1 for securities?

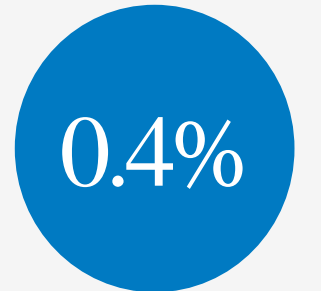
## The EU discussion

European Securities and Markets Authority (ESMA) issued a call for evidence to market participants\* on shortening the settlement cycle in the EU in October 2023 (responses due December 2023)

- Challenges faced by Europe extend beyond the impact of misalignment with the US and encompass the important aspect of aligning with the UK as well
- Aligning all impacted EU institutions to the process adds an additional layer of complexity, requiring further planning and it will likely extend the timeline for any potential implementation

The potential impact on the FX market, particularly in terms of settlement of FX transactions in CLSSettlement, resulting from any potential move to T+1, whether initiated by the EU and UK, is expected to be relatively minimal because:

- Current values settled T+1 in GBP and EUR are smaller
- Both markets operate in a time zone aligned to CLSSettlement's operational timeline



**CLSSettlement  
average daily  
settlement value\*  
(ADV) executed  
by funds on a  
T+1 basis  
involving EUR**



## Potential impact of T+1

# What options are currently available to mitigate the impact

## Increasing the efficiency of post-trade processes

### CLSTradeMonitor

#### Helps asset managers:

- Focus on exceptions through a near real-time exception management dashboard
- View the status of trade instructions submitted to CLS across multiple custodians and brokers in one centralized platform
- Identify and resolve issues as they arise which is crucial in a time compressed environment

#### Product overview

CLSTradeMonitor is a post-trade monitoring and reporting tool that provides a single view of all trade instructions submitted to CLS Settlement and CLSNet regardless of custodian.

### CLSNet

#### Helps buy- and sell-side participants:

- Gain post-trade efficiencies through automation and STP by removing manual interventions from the netting calculation process
- For T+0, reduce funding and the number of payments required by netting
- Improve intraday liquidity
- Adhere to the FX Global Code

#### Product overview

CLSNet is a standardized, automated bilateral payment netting calculation service for over 120 currencies. It is available to buy- and sell-side participants and supports FX spot, tom/next day, forwards, same-day, non-deliverable forwards and swaps.



## Potential impact of T+1

# FX Global Code of Conduct

Since the FX Global Code's inception, we have been actively engaged in its development and continue to contribute to discussions about enhancing it.

CLSNet supports market participants' adherence to certain principles:

Principle

35

Market Participants should **reduce their Settlement Risk** by settling FX transactions through services that provide PvP settlement where possible. The use of **automated** settlement netting systems is encouraged.

Principle

50

Market Participants should **properly measure, monitor and control their Settlement Risk**, where PvP is not available. As recently updated, Principle 50 continues to emphasize the confirmation process of bilateral netting and the agreement of predetermined cut-off points.

Trusted by thousands of counterparties within the global FX ecosystem, we make FX safer, smoother and more cost effective.

Created by the market for the market, our unrivaled global settlement infrastructure reduces systemic risk and provides standardization for participants in the most actively-traded currencies.



SETTLEMENT PROCESSING DATA

London  
Hong Kong  
Tokyo

New York  
New Jersey

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cls-group.com

