THE CHANGING LANDSCAPE OF THE FINANCIAL SERVICES INDUSTRY IN MALAYSIA

5 October 2017, Thursday
THE US MOVE TO T+2 – LESSONS FOR CHANGING MARKET PRACTICES

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1. Settlement Lifecycle – Setting the Context

2. Historical Background of Shortening of Settlement Cycle (SSC)
   - Boston Consulting Group Oct. 2012 study, “Cost-benefit analysis of shortening the settlement cycle”
   - PwC June 2015 whitepaper, “Shortening the Settlement Cycle: The Move to T+2”
   - Deloitte & Touche Dec. 2015 study, “T+2 Industry Implementation Playbook”

3. The US’ T+2 Journey

4. Lessons Learned
Settlement Lifecycle

Old adage: Nothing good happens between Trading and Settlement Dates. Solution: Shorten the Settlement Cycle (SSC).
US T+3 Trade Processing Flow

Source: www.ust2.com (PwC study, 2015)
Historical Background of SSC

1990s
- 1989 Group of Thirty (G30) Recommendations
- US moved to T+3 from T+5 in 1995

#7: A “rolling settlement” system should be adopted by all markets. Final settlement should occur on T+3 by 1992.

2000
- ISSA Recommendations 2000
- US began planning for T+1; AC study

#5: The major risks in Securities Systems should be mitigated by five key measures, namely:
- the implementation of real DvP
- the adoption of a trade date plus one settlement cycle in a form that does not increase operational risk
- xxxx

2009–2012
- 2009: the European Commission decided to transition to T+2
- 2012: BCG study

2014
- EU migrated to T+2
- US - formation of T+2 ISC and IWG
- Other countries have migrated since

Oct 2014: 27 EU countries converted from a T+3 to T+2 in support of the pan-European “Target2 Securities” (T2S), system initiative, slated to be fully implemented by July 2017.

2012 CPSS-IOSCO Principles for Financial Market Infrastructures, Principle 8: Settlementfinality. An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.
Commissioned by the Securities Industry Association, the predecessor of SIFMA, to assess the readiness of the US securities industry to move to T+1.

**10 Building Blocks:**

1. Modify internal processes to ensure compliance with compressed settlement deadlines
2. Identify and comply with accelerated deadlines for submission of trades to the clearing and settlement systems
3. Amend DTCC’s trade guarantee process to provide guarantee on trade date
4. Report trades to the clearing corporations in locked-in format and revise clearing corporations’ output
5. Rewrite the Continuous Net Settlement system (“CNS”) to enhance speed and efficiency
6. Reduce reliance on checks and use alternative means of payment
7. Immobilize shares prior to conducting transactions
8. Revise the prospectus delivery rules and procedures for IPOs
9. Develop industry matching utilities and linkages for all asset classes
10. Standardize reference data and move to standardized industry protocols

The industry deferred the shortening of settlement cycle but progressed work on addressing the 10 building blocks.
On October 4, 2012, Boston Consulting Group (BCG) released the findings of a study, commissioned by the DTCC, with guidance of the SIFMA, which highlighted the costs and benefits of shortening the settlement cycle for securities transactions in the US. The study examined three areas of concern: reducing risk, optimizing capital, and reducing cost.

**KEY FINDINGS:**

- The payback period for a T+2 cycle would be three years; moving to T+1 would result in a 10-year payback.
- 68 percent of survey participants supported a move from T+3, with 27 percent considering a shortened cycle to be a “high priority.”
- Competing priorities and other regulatory initiatives represent a potential challenge to shortening the settlement cycle at this time.
- Securities lending and the timing of foreign exchange (F/X) transactions to support cross-border trades, particularly in a T+1 environment, was a major concern.
- T+0 was ruled out as unfeasible for the industry to accomplish at this time, given the exceptional changes required to achieve it and weak support across the industry.

**NEXT STEP**

The next step in the process is to present this research to the securities industry and encourage the industry to decide the appropriate path forward. Research suggests that a move to T+2 could be achieved within three years once the path has been set. From there, a transition to T+1 would take an additional four to six years, and would require improvements in real-time processing. A direct move to T+1 would likely take seven to eight years.
Chronology of Major Milestones

* Source: SIFMA T+2 Fact Sheet

**Industry Actions:**

- Following an extensive analysis, the industry endorsed a move to T+2.
- The T+2 Industry Steering Committee (ISC), led by DTCC, ICI and SIFMA, and comprised of 20 participants across key market segments, was formed as a governing body for the T+2 effort.
- The ISC established an Industry Working Group of over 600 experts to assist in the initiative.

- In response to a request from then SEC Chair White, SIFMA and ICI commissioned Deloitte & Touche LLP to work with the ISC and develop a playbook outlining steps necessary for achieving T+2, including the timely finalization of the necessary regulatory changes.

- The industry identified September 5, 2017 as the target transition date after robust analysis.
- Regulators proposed and finalized rule changes to facilitate T+2.
- Internal, service provider and industry-wide testing hosted by DTCC was carried out to address the technical changes needed to shorten the settlement cycle.

**Regulatory Actions: Almost 50 Separate Rules were Addressed to Make T+2 a Reality**

- Regulatory action was critical for T+2, providing certainty for the industry initiative.
- In March 2017, the SEC amended Exchange Act Rule 15c6-1 to shorten the standard settlement cycle to T+2.
- Then, nine other regulators changed or addressed through guidance an additional 48 rules. These rule changes impacted, among other things: 1) dates by which to take certain corporate or other actions, 2) changes to settlement processes, and 3) confirmation/affirmation.
PwC 2015 Study - Proposed Migration Timeline

Source: www.ust2.com (PwC study, 2015)
Key Lessons

**Industry-led**
- Lead group: DTCC, ASIFMA, Investment Company Institute
- Buy-in: Establish value proposition, cost/benefit and industry impact upfront
- Own the work: Industry Steering Committee, Industry Working Group, sub-groups
- Effective use of consultants (BGC, PwC, EY)

**Or Regulatory Mandate**
- NSCC simulation earlier this year showed the move to T+2 reduces the NSCC clearing fund by approximately 25% or $1.36 billion.

**Thorough Planning**
- Detailed industry implementation planning – migration plan, system testing, regulatory filings, stakeholders education, communication plan, resourcing
- At the individual firm level, access to information and resources to make own internal plans
- Over-communicate – message should match target audience; use various channels (websites, webinars, industry events)

**Regulator Collaboration**
- Open dialogue between regulators, the infrastructures and industry players
- Strong regulatory support (Capitol Hill, SEC, 9 other regulators)
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