
The Move to T+1

Accelerated Settlement

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Introduction

The FIX Trading Community ("FIX") is an industry-driven standards body supported by 275+ of the world's top financial services companies, FIX works with other industry groups, standards bodies and regulators to develop and promote standards in line with industry expectations and regulatory compliance.

FIX is best known for the FIX Protocol, the real-time messaging standard covering all stages of a trade's lifecycle. The FIX Protocol has wide-spread adoption across the buy-side, sell-side, custodians, exchanges, CCPs and technology vendors globally across all major asset classes.

T+1 proposals

On February 9, 2022, the Securities and Exchange Commission (SEC) issued a proposed rule change¹ that would see the settlement cycle of US securities move from T+2 to T+1 in 2024. This follows on from the previous move from T+3 to T+2 settlement in 2017. Whilst the industry has suggested the proposed go-live date be moved to the Labor Day weekend in Q4 2024, the current expectation is for Q1 2024.

The Canadian Capital Markets Association (CCMA) have also announced their intent to move to T+1 settlement for Canadian securities in line with the SEC proposed move. Further to this, the Securities and Exchange Board of India (SEBI) introduced an optional T+1 cycle which was adopted by several exchanges in February 2022, and the topic is being explored in other markets.

The intention of these changes is to reduce settlement risk and liquidity requirements for market participants, leading to overall capital and balance sheet efficiencies and increasing market stability. The ongoing volatility and market stress through 2020 and 2021 heightened the focus on the securities settlement model from regulators around the world.

These proposals require that industry participants accelerate many processes, such as allocation and confirmation processing, such that they are concluded on trade date, helping to facilitate settlement on T+1. Much of the activity between execution and final settlement involves manual tasks, and so meeting these deadlines will present significant challenges without introducing automation.

¹ Exchange Act Release No. 94196 (www.sec.gov/files/34-94196-fact-sheet.pdf, FIX Trading Community responses www.fixtrading.org/packages/sec-shortened-settlement-cycle-proposal-response-april-2022)

Supporting the workflow

Impacts of these T+1 proposals span the whole industry across buy-side firms, broker-dealers, custodians, clearing houses and exchanges, depositories, and technology providers. For the T+3 to T+2 move in 2017 a playbook was created by SIFMA, Deloitte and the ICI. Following suit, for the proposed move to T+1 a new playbook has been created with SIFMA, Deloitte, ICI and DTCC providing input².

The FIX Protocol is already used to provide real-time messaging between institutional firms for much of their post-trade workflow and is therefore well placed to help firms meet the demands of processing speed and accuracy that T+1 settlement requires. As discussions evolve and these regulatory frameworks are put in place, FIX Trading Community participants continue to work closely with other industry bodies, helping to define best practices for the industry.

In-flight work

FIX, through its network of member-driven working groups, continues to work towards providing clearly defined workflow models and messaging to support post-trade processing.

In 2019, FIX introduced new messages to allow firms to exchange data related to a payment or cashflow. This had a significant benefit to the industry, using standards to facilitate automation of a process was previously conducted mostly manually. These messages support over seventy different cashflow types including coverage of outright cash payments and corporate actions.

More recently, work has been undertaken to create workflows and messages to communicate real-time settlement status information for both cash and securities. This work is expected to conclude in Q2 2023 and will directly assist with T+1 implementation by facilitating the communication of settlement status information across all interested parties.

FIX is also supportive of SWIFT's initiative to promote and standardise use of Unique Trade Identifiers (UTIs) across the post-execution process, with FIX Protocol support for UTI across the full suite of messages from allocation onwards.

Looking ahead

The FIX Trading Community continues to work for the industry to provide a framework of workflow and messaging standards that firms can adopt to support their business processes in the knowledge that their trading counterparties have similar capabilities. We are working hard to help firms transform their processing to be ready for T+1, and to understand the proposals as they evolve over the coming months.

We regularly welcome new firms to the community that wish to adopt FIX and enhance their business models by using FIX, and also to contribute to the regular discussions and forums that keep FIX moving forward and at the forefront of capital markets workflows. If you would like to understand more, please visit our website or contact us at fix@fixtrading.org.

² See www.dtcc.com/ust1/industry-playbook

