T+1 Accelerated trade settlement

Global challenges and opportunities for the investment fund industry

Accelerating to T+1

On 15 February 2023, the U.S. Securities and Exchange Commission (SEC) adopted the rule changes to shorten the standard settlement cycle for most broker-dealer transactions in securities from two days to one business day after the trade date (i.e. T+2 to T+1).

With India already migrated in January 2023, Mexico and Canada are set to migrate their security settlement process on 27 May 2024, in line with the US.
T+1 settlement is now live, as a result

- Orders submitted with a trade date on or before 28 May 2024 are settling based on the T+2
- Orders submitted with a trade date after 28 May 2024 are settling based on the T+1.

Asset class in scope

In scope are DTC-eligible trades in the US, including US equities, bonds, and other listed underlying assets, and fund shares including exchange-traded funds (ETFs) and non-over-the-counter (OTC) derivatives. However, domestic securities with a settlement cycle greater than T+2 will not be modified.

Risk reduction as a key driver

Shrinking the period between the trade execution and settlement reduces credit, operational, market and counterparty risks, while also reducing margin requirements, boosting market liquidity.

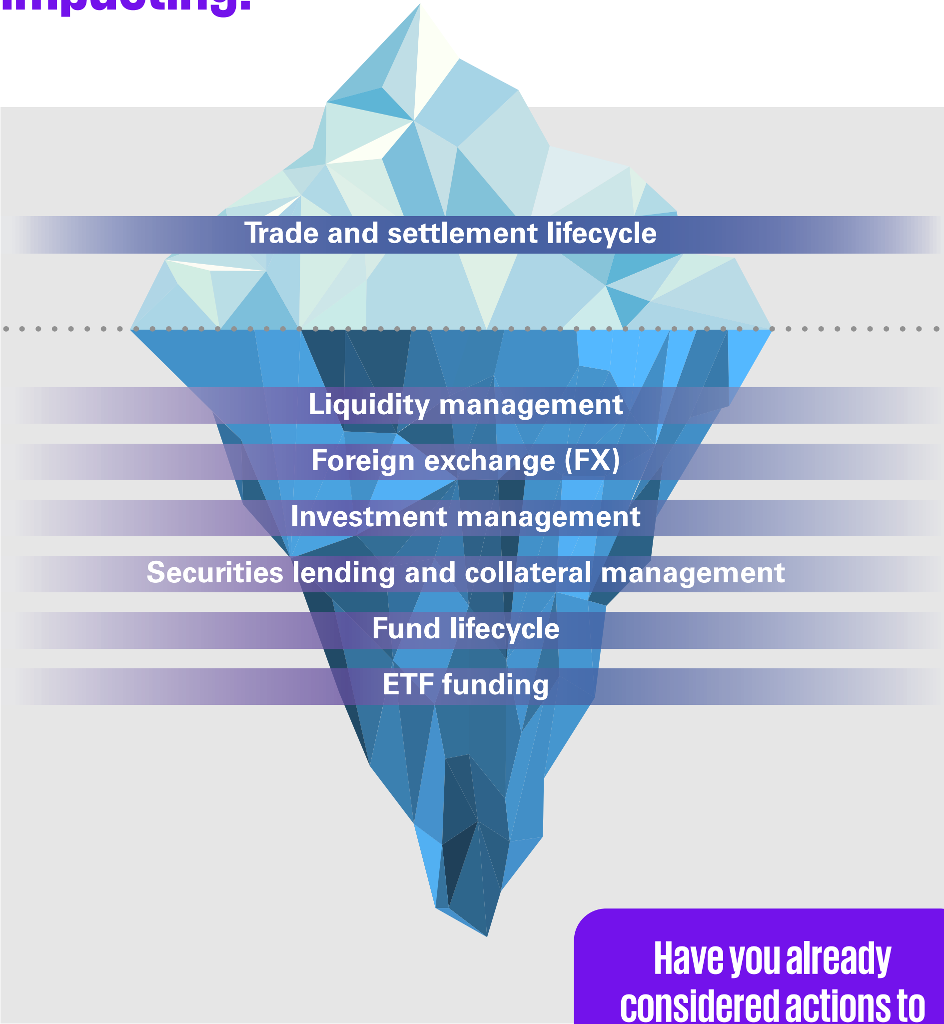
Increased operational challenges

T+1 settlement eliminates the one-day cushion between trade execution and settlement, often used today to address settlement mismatch and prevent settlement failure. To reduce their operational risks, all market participants must adjust their processes or operating models to avoid reduced liquidity and increased costs related to post-trade activities.

Trade automation is critical

Transaction processing will need to be fully automated to ensure on-time delivery. If there is human intervention, the straight-through-processing (STP) flow is interrupted and T+1 may not be guaranteed. The Depository Trust & Clearing Corporation (DTCC) offers its strategic Central Trade Matching (CTM) platform and enhanced Match to Instruct (M2I) product for the central matching of cross-border and domestic transactions. There will be no penalties, but failing settlements will trigger an additional cost for the participant.

T+1 is a typical iceberg challenge, impacting:



Have you already considered actions to mitigate the impacts?

How can KPMG help?

KPMG is a market leader in advising, auditing and structuring for the investment fund industry. Our extensive knowledge and experience in a myriad of areas allow us to offer a customized approach that fits your unique needs. Our seasoned team of experts can also help you implement your solution at the organizational and product level in a targeted and efficient way.

Impact assessement

- Trade and settlement lifecycle
- Liquidity management
- FX
- Investment management
- Securities lending/collateral management
- Fund lifecycle
- ETF

Detailed gap analysis by impacted areas

- People and organization
- Processes and operations
- Business partners
- Clients and products
- Policies and documents
- Regulation and compliance
- Technology and connectivity

Transformation support

- Solution development
- Definition of a detailed action plan
- Program management and governance
- Stakeholder management
- Testing

Market insights

- Outlook on future changes in the EU, Switzerland, and the UK.
- Global implications and options
- Challenges to adopt T+0 in the future

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