

The Countdown to T+1 Settle:

Themes and Questions

On May 28, 2024, US equity trades will settle the next day. With under a year to go, it's a good time to check in on some of the themes and operational changes that will need to occur. Importantly, the onus will not just be on the broker/dealer community to comply (as with the SEC's Market Structure Proposal Changes) but a whole host of market participants will need to exercise implementation and testing to processes prior to the go-live.

We were provided with significant exposure in 2021 with regards to settlement and how it relates to margin, operational, and counterparty risk—which was front and center as the new SEC regime took hold. Different than the aforementioned Market Structure Proposals, this initiative seems to have broad support. Organizations such as The Securities and Financial Markets Association (SIFMA), The Investment Company Institute (ICI), and the Depository Trust and Clearing Corporation (DTCC) are all working together to forge the path forward from a two- to one-day settle.

Remember, we've all adjusted to shortened settles in the past, most recently from T+3 to T+2 in 2017, so there's no reason to think this can't go smoothly. As previously mentioned, industry support is there as a more efficient market can be attained while reducing operational cost and counterparty risk. One question to keep in mind, however, is: Why would we stop at T+1? Doesn't the obvious goal of T+0 equate to the least amount of systemic risk within the system, i.e., if you have the money: buy it, if you don't: don't. The operational adjustments will be made—and have been before—but it is a major jump through hoops to align processes, systems, etc. to comply with the new timeframe—will the final requirement come again a couple of years down the road? It seems possible if the most complete transparency of monies is the goal.

There are some operational specifics below but something not mentioned in the business media, although worth consideration, is impact to the swaps market—where the goal is to have the broker/dealer carry the risk to execute on a strategy. From a fund management perspective, the risk with brokers will certainly be reduced, possibly denting what is a currently sizable market.

See the Liquidnet summary below for some of the key components at play here but some clearing questions remain unsettled in the meantime:

- Complications of settlement rises significantly for international traders. Typically, international accounts don't allocate until T+1—delaying allocations, matching, and getting set up.
 - Do operations get moved from the executing region to local? If they allocate 2am local, are they waiting until 8am EST for allocation execution?
 - Is moving clients to central trade matching (CTM) the immediate goal for broker/dealers? Will there be a move to FIX allocations via Tag 1?
 - Does every client need an omnibus account?

Also recommended: [SIFMA's T+1 Securities Industry Implementation Playbook](#), which was updated in April 2023 and can be a solid reference point.

Liquidnet T+1 Settlement Summary

Expected Go Live

- May 28, 2024 (Approved by SEC)

Benefits of T+1 Settlement

- Increase efficacy in the industry
- Mitigate market and settlement risks
- Reduce margin requirements
- Free up capital

Expectations of Industry Partners/Participants

- Review and enhance operational processes
- Aim for STP/real-time processing of allocations/settlements
 - Liquidnet will look to leverage FIX/CTM for allocations
 - Manual adjustments on Trade Date
- Leverage international team to ensure industry deadlines are met

Key Processing Changes

- All industry processing deadlines moved up by approximately 24hrs
- DTCC/NSCC will consume record later to T
- Affirmation/disaffirmation moved for 5:00pm T+1 to 9:00pm on T
- Transactions will need to be approved on RAD prior to the start of the proposed 11:30pm ET
- CNS buy-ins will remain 48hrs/two (2) business days
- Additional key changes can be found via below links

Testing Specifications

- High level documents and environment available Q4 2022



As a firm, Liquidnet is working with the industry to ensure our process and procedures are up-to-date and ready for the change.

Useful links:

- [Summary - DTCC Accelerating to T+1 Series](#)
- <https://www.dtcc.com/ust>



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