T+1 securities settlement in the US

Impact on Luxembourg asset managers

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alfi
association of the
luxembourg fund industry

I.1. Secondary markets transactions
Trading and settlement market infrastructures - Impact on Transaction costs

Need to adjust processes

1. Impacts	2. Remedies
A. Buying US Securities at T+1 from May 2024 a. Need to upgrade the current clearing/settlement processes/market infrastructures, along the fund custody chain. b. Note: No impact on the CSDR Cash penalties regime, still applicable on a T+2 basis	• The asset manager should check how its **custodian is able to settle** the financial instruments **at T+1**. • Implement the DTCC affirmation/confirmation process recommended by local market infrastructure. • Ensure staff responsible for the settlements is **able to operate within the US time zone**. • Agree on different settlement cycle with trading counterparties [1].
B. Foreign currencies (FX) **a. Funding need in (USD), to settle at T+1 in FX** b. Risk of overdraft if USD remain bought on the **spot market based on a T+2 delivery.** c. Cash/treasury management processes will have at least one day less to transform the available cash into USD to buy US securities. d. Risk of over/under hedging on UCITS hedged share class.	• Funding to be performed with or without using the custodian. • **Adjust all cash management** (including FX) **processes**, including strict respect of custodian & CLS cut-off times. • **Ensure staff** responsible for cash management, including FX booking, **is able to operate within the US time zone**. • The portfolio managers need to carefully monitor their available cash positions, including the ability for same day T+0 FX.

[1] an extended settlement period with the brokers (i.e. T+2) should remain possible, although brokers may charge an extra commission for agreeing a non-standard settlement period. This is to be assessed on a case-by-case basis by the investment manager.

I.2. Secondary markets transactions
Impact on securities lending

	1. Impacts	2. Remedies
Recall of securities lent	<u>Lending US Securities at T+1 from May 2024</u> Recall of securities lent: **a.** **Borrowers of securities** (lent by Asset Managers as part of EPM techniques) **will have to comply with a shortened period of recall.** b. It may potentially **impact the pricing of the lending agreement**, and the operational cost with the securities lending agent (at the detriment of the Asset Manager). c. The induced complexity might put pressure on the lending agent[1] processes, which may potentially pass on to lenders the "increased operational costs".	• Ensure the lending agent receive and process recall instructions before their cut-off time. • Closely monitor the lending agent operational efficiency and potential issues with certain borrowers.

[1] This item has been put under scrutiny by ESMA through its CSA (ESMA Final report on the Common Supervisory Action (CSA) on costs and fees for investment funds (ESMA34-45-1673), 31 May 2022) on the supervision of cost and fees of UCITS, in particular when using EPM techniques.

II.1. Primary markets transactions
Subscriptions/Redemptions in mutual funds

	1. Impacts	2. Remedies
Gap between subs/reds and investment	On subscriptions, **the liquidity mismatch** created by timing differences may create a need for a specific funding (e.g. cash or borrowings)[1]. Some funds that typically settle at T+3 may face a **shortage of cash** if they have to invest in US Securities at T+1 [1].	Adjust the settlement processes to align investment and subscription dates could be envisaged i) at investor level, and/or ii) at portfolio level; i) Portfolio level a. Agree **a bespoke settlement cycle with the concerned broker** b. Maintain a "cash buffer" on the US accounts ii) At investor level a. **Anti-dilution mechanisms** such as swing pricing could be leveraged to ensure that existing investors do not bear costs specifically generated by the liquidity mismatch from new entrants. b. Bring the **fund settlement forward** (i.e. to T+1 or T+2), this implies to check : - whether a prospectus modification is necessary, as well as any other marketing documents; - the impact on distributor(s) and fund clients, for example can they easily accommodate that sub-funds within an umbrella may have different settlement cycles, are they able to transfer funds within the reduced settlement cycle, etc; - the impact on the workflow with distributors, for example the impact on contract notes timing. c. Bring the **investor cut-off forward** (e.g. to T-1) - allowing a reasonable time for the administrator to clear exceptions prior estimated cashflows deliveries to the Asset Manager; - allowing more time to the asset manager to reviews its projected positions (for example settled cash vs pending cash).

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II.2. Primary markets transactions
Subscriptions/Redemptions in mutual funds

	1. Impacts	2. Remedies
Gap between subs/reds and investment	a. On redemptions, **the liquidity mismatch** may create a need for at least one more day of cash management to ensure diversification (from current T+2, between T+1 and T+3) b. Risk of **breaches of investment restrictions** within the meaning of the UCITS framework: i. Cash [1] ii. Time Deposits iii. Borrowings[2], with a mechanical impact on leverage increase c. For **corporate actions**, the **window** between ex date (date from which a security trades without entitlements) and record date (last eligibility date to entitlements) will be **shortened**.	a. Same as b. **b.** **Upgrade investment limits monitoring** as regards the specific T+1 impacts i. Upgrade monitoring of cash position ii. Use of cash forecast to foresee investments c. Ensure custodians have adjusted their processes with regard to the new reference dates for corporate actions.

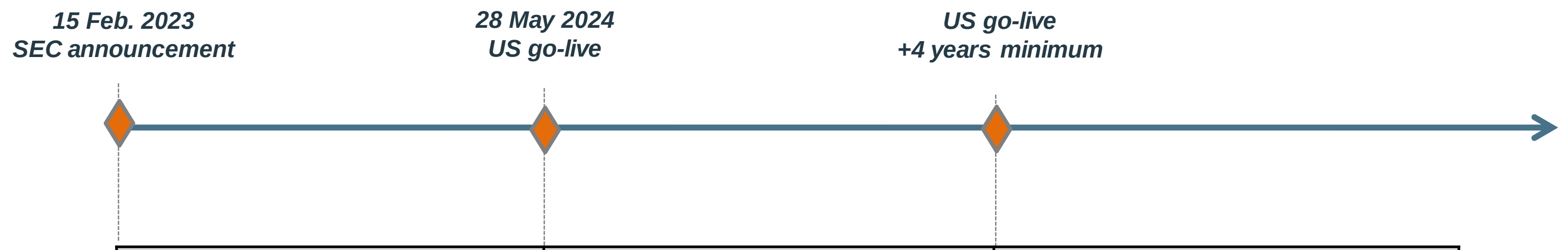
[1] pursuant to Article 52(1) UCITSD.
[2] pursuant to Article 83(2) UCITSD.

III. Timeline to consider
3 phases for the EU settlement cycle

We propose the milestones below. The EU T+1 milestone is positioned **realistically** ca. 4 years after the US go-live for the following reasons:

1. Remove **hurdles out of the direct control of Asset Managers** (adjustment in the rest of the landscape)
   - -custodians off course, as regards their capacity to settle at T+1
   - -but also distributors (banks and platforms) who collect investors money

2. Preparative works for Asset Managers:
   - -specific legislative process underpinning EU T+1 (2024/25/26)
   - -post mortem of the US go live (2024/25)
   - -appetite and ability to invest in this project, as an industry consensus
   - -preparation for the EU T+1 go-live (as of 2026)



	Phase 1. Preparation and Testing	*Phase 2. Transition*	*Phase 3. Running*
EU Settlement Cycle	T+2	Dual channel in the EU: > **T+1 for US** underlying > **T+2 for EU** underlying	**Mandatory T+1 cycle pursuant to a new legislative framework**
Main actions	Testing campaigns on the DTC plaform with use cases scenarios. Ensure that custodians are able to settle transactions at T+1.	Lessons learned from the implementation, including cost assessment	Streamline processes
Associated costs	Migration costs to **US T+1**	Cost of a dual settlement channel Migration costs to **EU T+1**	Running costs

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