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insights:
THE PATH TOWARD T+1

For background, challenges, and best practices, we spoke with Bill Wright, Archer's Executive Vice President of Service Delivery, to get the 411 on T+1.

May 28, 2024 will be an important day for investment operations teams. This is the date that the SEC has designated for trade settlement to move from T+2 to T+1, meaning that for cash equities, corporate debt, and unit investment trusts, settlement will need to be complete one day after the transaction date.

This change might feel familiar, as it was not too long ago that the industry moved from T+3 to T+2; 2014 in Europe and 2017 here in North America. Now, with some bond markets already at T+1, and some equities at T+0, some operations teams are on track. For others, though, it will require a change in process as well as technology to support the requirement.

As Archer works across all asset classes with many different types of asset managers, we already have some clients using T+0. For background, challenges, and best practices, we spoke with Bill Wright, Archer's Executive Vice President of Service Delivery, to get the 411 on T+1.

WHY THE CHANGE TO T+1?

Besides enabling investors to access securities transaction proceeds sooner, moving to T+1 also supports risk mitigation. Changes in intraday margin calls during periods of volatility can greatly impact firms, and liquidity can be strained as members draw down credit lines and increase liquidity buffers. Time to settlement creates counterparty risk, and the margin requirements designed to mitigate those risks can create costs.

The industry believes that moving to a T+1 settlement cycle will increase the overall efficiency of the securities markets, mitigate risk, create better use of capital, and promote financial stability. I believe it is important to strike the appropriate balance between increasing efficiencies and mitigating risk.

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HOW DOES THIS CHANGE IMPACT ASSET MANAGERS?

Today, the affirmation timeline is set at 11:30 AM ET on T+1. In order to meet a T+1 settlement cycle, this time will need to change to 9:00 PM ET on trade date. Both U.S. and non-U.S. institutional investors will need to adopt processes and behavioral changes to meet this new cutoff time.

HOW IS ARCHER PREPARING FOR T+1?

Currently, even though settlement requirements are T+2, Archer matches the majority of trades (95%+) on trade date. Archer is currently engaged with DTCC to look at adding to the product set with their auto-affirm capabilities to further streamline the process.

While currently in production in a limited industry scope, Archer is conducting preliminary analysis on their "Match to Instruct" product (M2i) within Central Trade Matching (CTM). This will essentially take the matched transaction in CTM and submit it as an affirmed confirm into the settlement cycle at the DTC, removing manual touchpoints.

As we have in the past, Archer will continue to evolve technology and processes to stay ahead of these types of regulatory changes to ensure a seamless transition for all of our clients and their counterparties.

HOW CAN OPERATIONS TEAMS PREPARE FOR T+1?

Based on our current conversations with clients and our experience transitioning from T+3 to T+2, we are sharing some best practices for asset management operations teams planning for T+1.

- Review your broker list to ensure that the brokers you work with are prepared to meet the T+1 guidelines. This will ensure sufficient coverage to meeting tighter deadlines, accurate processing, timing responsiveness, etc.
- Ensure that your SSIs are updated, and that commission tables and fees for international (VAT) are accurate and reconciled to your execution partners. Doing so helps prevent unnecessary delays in booking and settling trades.
- Evaluate timing of trade flows to determine if there is an opportunity to increase efficiency on your trade desk and with your order management systems. This will also help to ensure compliance with the affirmation timeline change from 11:30 AM T+1 to 9:00 PM on trade date.

The realities of a T+1 execution and settlement process will require rethinking trade execution, processing, financing, payments, and settlements. As we have in the past, Archer will continue to evolve technology and processes to stay ahead of these types of regulatory changes to ensure a seamless transition for all of our clients and their counterparties.

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