



Banking

What industry leaders really think about T+1

With T+1, banks will soon need to complete securities trading within one day—half the time they have now. Financial leaders are divided on the repercussions for their organizations.

When securities are bought or sold, two dates matter most: One is the date of the trade, and the other is the date on which ownership is transferred, or settled.

Slowly but surely, the two dates are converging. Currently, banks have two days to settle the trade. But on May 28, 2024, the industry will make its next giant step forward. That's the deadline the Securities and Exchange Commission has set for security settlements

to occur within one business day of the transaction date ("T")—half the time that banks have now.

T+1 is on—and financial leaders are divided on how big a shift it will be for their organizations. We spoke in-depth with banks and investment executives for an insider's look at the consequences of the shortened settlement cycle. They shared a nuanced take on T+1, voicing confidence about the transition but also questioning who really benefits, with some leaders admitting significant doubts about their firms' readiness.

Potential upside of T+1

There's no question that T+1 edges the trading industry closer to real-time finance for stocks, bonds, exchange traded funds and mutual funds. In our interviews with leaders at a dozen firms, they identified the benefits of the shortened cycle, which include not only more efficient capital use but also reduced operational risk in settlements. There's also optimism about the increased liquidity expected from shortened trade cycles.

Trailing in importance are the benefits expected from modernizing core legacy systems (for example, to remove most dependencies on overnight batch processes) and the expected reductions in "run costs" that would derive from more efficient operations. The relatively lower enthusiasm for these benefits is no doubt due to firms having already aligned these benefits against existing initiatives underway in these two areas. (For a quick overview of the new standard, see our infographic, "T+1 is coming to securities trading—**are you ready?**")

Differing opinions

Despite T+1's intended benefits, executives see the business case for the new standard being largely at the industry level, with several leaders skeptical about the upside for their own firms. Opinion falls largely along the lines of how firms manage their back office. Those that run their own back offices see the greatest disconnect, observing that industry benefits far outweigh any organizational gains. They point out that quicker settlements don't necessarily reduce risk and make little difference for firms that already carry the required capital.

Firms that outsource their back-office operations see T+1 through a different lens. While they rely on their brokers and custodians to address the T+1 solution, they remain sensitive to implementation concerns that need to occur before the accelerated settlement goes live, such as API modernization—for example, ensuring compliant data transmission between correspondent and clearing brokers—and end-to-end testing design.

Two-thirds are ready for the T+1 shift

Many leaders point to their success with earlier settlement initiatives as the source of their optimism for T+1 compliance. In 2017, the SEC shortened the standard settlement cycle for most cash securities transactions from three days, known as T+3, to the current two days, or T+2.

Fast forward six years, and two-thirds of leaders told us they feel well positioned for the upcoming T+1 transition due to the smooth transition to T+2. In terms of preparedness, the same number report having at least a high-level roadmap for their T+1 implementation. "We have plans in place," one executive said confidently, "and we understand the scope of work."

About half of the leaders we spoke with view T+1 as an incremental change. Said one, "The big lift was T+2, where we shifted away from legacy elements. It was already signaled that we were going to move to T+1, so this is a smaller lift than that project was."

Next stop, T+0

As settlement times shrink, real-time settlement looms for trading partners as the Next Big Thing. One quarter of the leaders we spoke with report they're already working toward T+0 and evaluating the technology and operational processes to support T+0 affirmations, confirmations and allocations. A top priority is streamlining operational burdens and establishing straight-through processing for an end-to-end trade lifecycle that integrates with third parties through automation, data integrity and controls.

Interestingly, these forward-thinking leaders are looking beyond traditional approaches—such as platform modernization and managed services—and toward bolder implementation choices, such as reshaping business models to accommodate, for example, the impact T+0 would have on their securities lending businesses and credit processes. They're also looking

to deploy emerging technologies, including decentralized finance tools such as blockchain, that hold potential solutions for real-time (atomic) settlement.

One-third are in catch-up mode

However, T+1 readiness is far from uniform. Nearly one-third of business leaders said they're just beginning their T+1 impact analysis and lack a comprehensive plan or budget. Several point to poor overall market alignment as a major hurdle. As one leader shared with our team, "Counterparties aren't yet aligned on how they are going to handle it. Even if we were technically ready, we're not ready from a business perspective because there has to be an industry agreement."

Indeed, despite firms' experience with earlier settlement transitions, executives we spoke with expect a steep learning curve for T+1. Two-thirds of the executives identify the biggest challenges as harmonization of regulations and processes, and regulation of risk in real time. They expect the greatest complexity to be in the functional

areas of prime brokerage, securities lending and international trading and settlement.

Additional implementation hurdles include validating counterparty readiness, building an integrated industry testing plan, and the redesign of operational process and procedures.

Regardless of firms' T+1 readiness, the message from banking and investment leaders is clear: Adoption of the T+1 standard signals the inevitable move to real-time securities settlement. It's coming. Let's plan for it.

For more information on how your firm can prepare for a smooth transition to T+1, [click here](#)



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