## Preparing for T+1 in Asia

The financial world is on the cusp of a significant transformation, and at the heart of this change lies the transition to T+1 settlement in the United States. This shift, aimed at accelerating the settlement cycle, will ripple through Asian markets and impact fund managers.

Starting from 28 May 2024, the U.S. financial industry will bid farewell to the existing T+2 settlement cycle and embrace T+1. The new regime will shorten the settlement cycle of most U.S securities to just one business day after trade execution. While the motivation behind this change is efficiency and risk reduction, its impact will resonate globally, with Asia at the forefront.

The countdown has begun: industry leaders have dived into the challenges, operational risks, and solutions in the recent webinar, “APAC Webinar: T+1 and the impact for fund managers in Asia”, held by The Alternative Investment Management Association (AIMA) on Feb 28.

### The impact will be multifaceted

From 28 May 2024, any North American trade must initiate its post-trade process within 30 minutes after the market closes. By 6 p.m. ET, the entire process should be completed. Brokers also face the additional responsibility of generating post-trade reports and sending them to regulators by 9 p.m. ET. This places immense pressure on reporting brokers to ensure timely trade matching. Regulators demand matched statuses and various timestamps as the process unfolds. Achieving timely completion of the matching process involves transparency, coordination, and precision.

There are also other operational challenges that loom. If engaged in securities lending, firms must obtain confirmations well before the U.S. market closes on the day the asset manager makes any long/short trade on the security to ensure smooth settlement. This will have to be accompanied by realigned regulations that allow the system to function in the shorter cycle. Also, if there is a need to execute forex trades, having the funds available for settling U.S. trades on T+1 is crucial against a reality of a T+2 forex settlement cycle. Asset managers will need to come to an agreement or understanding with their custodians or brokers to ensure that their trades are funded.

APAC fund managers, who often operate across multiple markets and time zones, will need to adapt their processes and operational workflows to meet the shortened settlement cycle. The reduced timeframe for resolving exceptions and reconciling trades poses a challenge, particularly for APAC fund managers who may face resource constraints during Saturday mornings, which coincide with Friday night cut-offs in other regions.

### The old ways will not cut it

Although some asset managers have made the necessary investments needed to automate much of the post-trade lifecycle, many are still using manual processes for trade clearing and settlement. Unfortunately, throwing more manual resources at the problem is unlikely to get the job done in the era of T+1.

The implementation of automated processes for trade instructions, affirmations, and FX transactions is really what is going to be *scalable*. By automating the asset managers’ post-trade process and incorporating transparency at every stage of the trade life cycle from order generation to settlement, asset managers can navigate the challenges posed by T+1 settlement successfully and effectively.

The technology is available in the industry to provide for a T+1 settlement cycle. The aim will be to ensure smooth straight through processing (STP), which will minimize breaks and manual intervention, and ensure timely execution. Transparency is also paramount in this process. An end-to-end solution is essential to ensure that real-time information is carried holistically through both the buy and sell side, to the operations desk, trading desk, and back from the custodian banks or prime brokers when the trade is settled.

Fund managers will also have to collaborate closely with custodians, counterparties, and trust banks. Real-time data sharing and validation are critical for meeting cut-off times and resolving discrepancies. They will also have to update existing procedures and train staff, emphasizing early preparation, affirmation deadlines, and effective FX management.

**Embrace modern solutions, be ready for what’s next**

T+1 is not going to go away, and Asia’s financial players must embrace change. Automation and transparency achieved through a powerful STP platform holds the key to a smoother transition and is a critical piece is eliminating mismatches. Let’s position ourselves for success in this faster-paced settlement landscape by leveraging technology.

One such solution is NYFIX Matching from Broadridge, an AIMA member. This industry standard FIX-based solution for post-trade processing and provides real-time, multi-asset trade matching via a single point of access. It will enable you to streamline your trade matching across asset classes and accelerate your settlement cycle at lower cost.