

Transition to Shorter Settlement Cycles

Associated Risks and Mitigation Measures

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INTRODUCTION



- This Risk & Recovery Management Task Force session focuses on **Risks associated with T+1 Settlement and how to mitigate them.**
- T+1 settlement cycle refers to the **shortening of the settlement cycle from the current T+2 (trade date plus two days) to T+1 (trade date plus one day)**. This change aims to reduce the time gap between trade execution and settlement, increasing market efficiency and reducing risk.
- The transition introduces new risks and challenges which we will highlight in this presentation and ways to mitigate them.



BENEFITS



Reduced Settlement & Credit Risks

Increased Market Efficiency

Improved Liquidity

Enhanced Customer Experience

- **Reduced Settlement & Credit Risks:** Lower risk of settlement fails and lower credit risk exposure reduce associated costs and promote market stability.
- **Increased Market Efficiency:** Faster settlement enables quicker access to funds and securities.
- **Improved Liquidity:** Reduced settlement cycles can lead to increased market liquidity.
- **Enhanced Customer Experience:** Faster settlement attracts more local and foreign investors.

CHALLENGES



○ Operational Complexity

○ Technology And
Infrastructure Upgrade
Costs

○ Risk Management

○ Liquidity
Management

- **Operational Complexity:** Shorter cycles require faster processing and increased automation.
- **Technology And Infrastructure Upgrade Costs:** Legacy systems may need upgrades or replacement.
- **Risk Management:** Enhanced risk monitoring and mitigation strategies are crucial.
- **Liquidity Management:** Ensure sufficient funding and manage intraday liquidity.

RISKS



Increased Pressure on Liquidity Management

Firms must ensure they have adequate liquidity to meet the increased funding and margin requirements within a shorter timeframe.



Risk of Disruptions

The transition may lead to potential disruptions if systems and processes are not adequately tested and prepared.



Higher Settlement Fails

The accelerated timeline may lead to an increase in settlement fails, particularly during the transition phase.

RISKS



FX-Related Challenges

Foreign investors may face increased risks related to foreign exchange transactions due to tighter timelines.



Regulatory Misalignments

There may be discrepancies between local regulations and the new T+1 framework, leading to potential compliance issues.

MITIGATING MEASURES

Process Automation

- Implement automated workflows and straight-through processing.

Advanced Risk Management

- Enhance risk monitoring, mitigation, and reporting

Technology Upgrades

- Invest in modernizing infrastructure and systems

Liquidity Management

- Implement robust liquidity management practices

Testing and Simulation

- Conduct thorough testing and simulation exercises

MITIGATING MEASURES

Industry Collaboration

- Foster collaboration among market participants

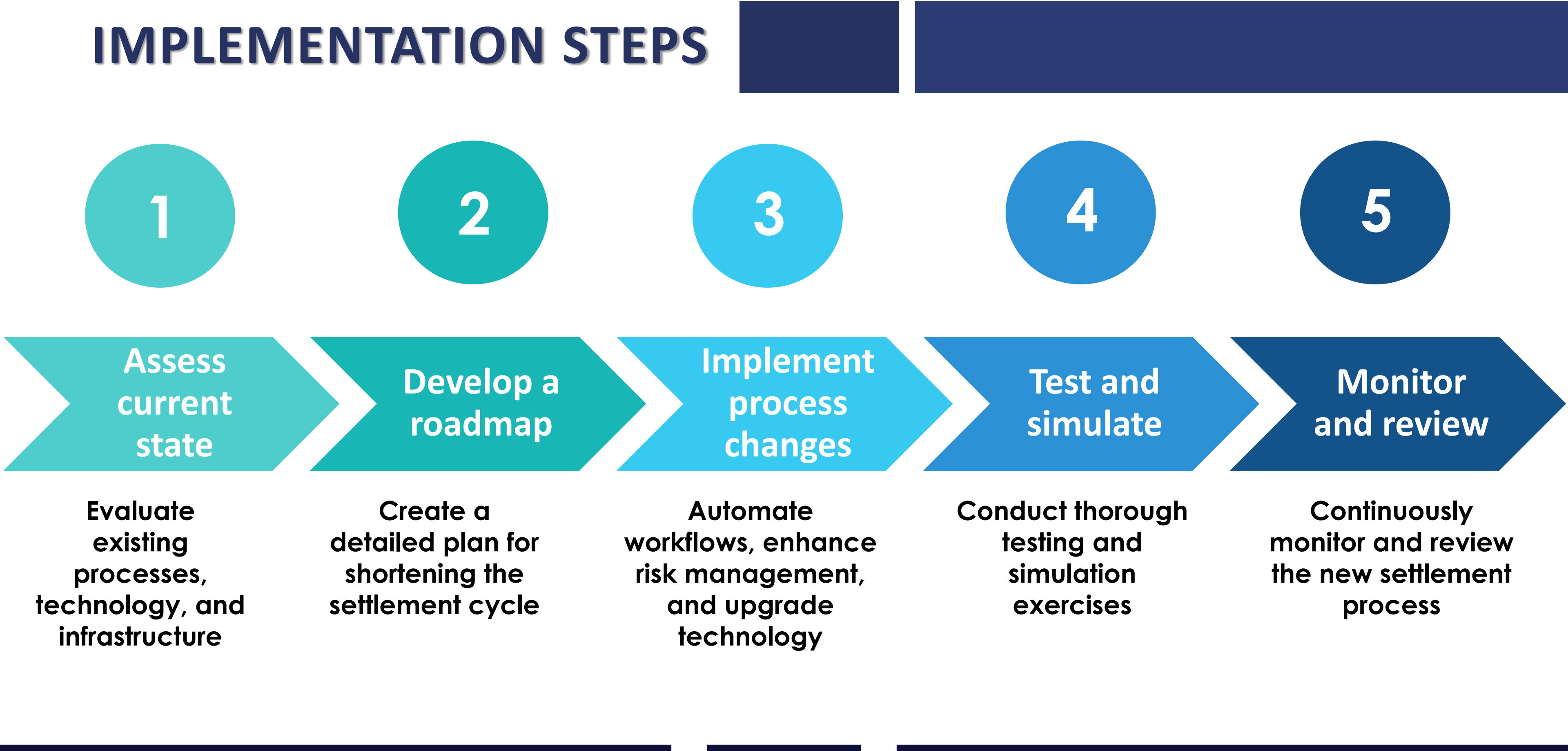
Regulatory Compliance

- Ensure compliance with new regulations and industry standards

Operational Resilience

- Enhance system capabilities, and continuity plans to withstand disruption














IMPLEMENTATION STEPS



PLANS (PIPELINE)

In various global markets



	Company	Current State (T+2)	Future State (T+1)	Key Initiatives
	DTCC (US)	T+2 settlement cycle with higher credit risk	Transitioning to T+1 to enhance efficiency	Implementation of auto-affirmation and real-time processing
	HKEX	T+1 and T+0 settlement cycle with ongoing improvements	Planning for T+1 or T+0 to enhance market access	Upgrading trading systems and enhancing operational processes
	Singapore Exchange (SGX)	T+2 settlement cycle with ongoing improvements	Planning for T+1 to improve liquidity	Upgrading post-trade systems and operational processes
	JASDEC (Japan Securities Depository)	T+2, T+1 and T+0	Targeting T+1 transition with operational changes	Establishment of a Technical Group for analysis and planning
	Korea Securities Depository (KSD)	T+2 and T+1	Finalization	System upgrades, risk management and automation of processes
	NSDL (National Securities Depository Limited)	T+1	Gradual Adaption	Infrastructure improvements, regulatory alignment, stakeholder engagement and market participant training
	CDS – Sri Lanka	T+3 to T+2 Since 10th June 2024	NA	Liquidity management and regulatory compliance
	Philippine Depository & Trust Corp. (PDTC)	T+3 to T+2 Since Q4, 2023	NA	Liquidity management and technology upgrades
    	Pakistan (Capital Market SROs with the Regulatory guidance of SECP and support of SBP)	T+2	Planning for T+1	Technology enhancements, infrastructure improvements, stakeholder collaboration, operational efficiency, regulatory collaboration with the SBP, alignment with banking eco system

T+1 IMPLEMENTATION IN PAKISTAN – A SNAPSHOT



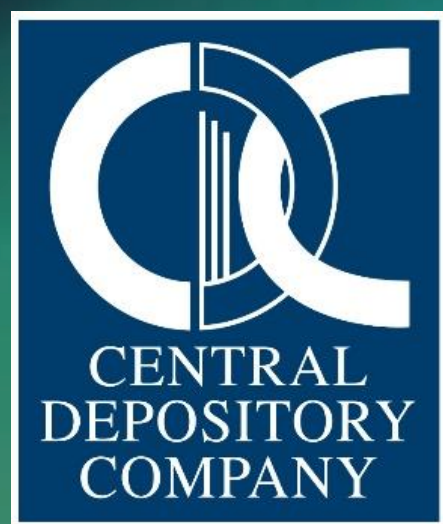
Pakistan is transitioning to the **T+1 settlement cycle**, in line with global trend, reducing the time interval for the settlement of trades from two days (T+2) to just one day. It is decided that the change will be implemented across all securities on the cutoff date instead of the phase wise approach adopted by some countries.

Transition Challenge Example:

- Affirmation for foreign clients conducting trades through CCMs was allowed till T+1. Revision in process needed to meet the T+1 settlement date.

Solution Under Discussion:

- All transactions will be auto affirmed at day end.
- Window allowed to CCMs to approve or reject auto affirmed transactions till 11:00 am PST cutoff time on T+1.
- **On approval by CCM:**
 - Sale: Securities will be moved out from CCM account after cutoff time.
 - Purchase: Securities moved into CCM account before cutoff in blocked form and unblocked after approval by CCM.
- **On rejection by CCM:**
 - Sale: Reverse BO generated to reverse transaction to initiating Broker.
 - Purchase: Money and delivery obligation will be transferred to the initiating Broker.



Thank You!