Please post your questions at the Q&A box.

All attendees will be muted during the webinar.
WELCOME
ABMF-CSIF WEBINAR
Accelerated Securities Settlement and Its Impact

Thursday, 9 June 2022
10:00 AM (Manila Time)
via Zoom
AGENDA

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MASTER OF CEREMONY

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OPENING REMARKS

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SESSION 1

Move to T+1 in the US

Michele Hillery
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Equity Clearing and DTC Settlement Service
Depository Trust & Clearing Corporation (DTCC)
US T+1 UPDATE

Michele Hillery, Managing Director and General Manager of Equity Clearing and DTC Settlement Service

June 9, 2022
Agenda

• Overview of T+1
• Overview of the SEC’s Proposal
• Survey of the Comment File
• Key Open Issues and Next Steps
• Questions
T+1 Overview

INDUSTRY ENGAGEMENT

HISTORY
DTCC engaged IWG in 2020 to review proposal for reimagined US C&S
DTCC published white paper proposing 1H2023 move to T+1 (Feb 24, 2021) DTCC, SIFMA and ICI publish Roadmap to Achieving T+1 (Dec 01, 2021) SEC publishes its proposal (Feb 9, 2022)

INDUSTRY WORKING GROUPS
Deloitte hosted industry working groups between June – October Meetings 4 days/week
Average number of people dialed into the calls 175-250
Working groups investigated current processes, challenges, and made recommendations across 10 key areas.

RECOMMENDED ACCELERATION
Working group determined that T+1, and not T+0, is achievable this time.
Recommendation is for US to move to T+1 settlement 1H2024

INFRASTRUCTURE MODERNIZATION
MOVE TO DECREASE OR ELIMINATE MANUAL PROCESSES

STANDARDIZATION
MOVE TO CREATE STANDARDIZATION AND SYNCHRONIZATION OF PROCESSES; ADOPT INDUSTRY STANDARDS WHERE THEY EXIST

CAPITAL EFFICIENCY
EXPECTED REDUCTION IN NSCC CLEARING FUND AND LIQUIDITY NEED DUE TO ONE DAY LESS ACTIVITY IN THE SYSTEM

SETTLEMENT RISK
LESS IN-FLIGHT INVENTORY DUE TO SETTLEMENT CYCLE WILL REDUCE SETTLEMENT RISK

REDUCTION IN COSTS
LONG-TERM COST REDUCTION THROUGH BENEFITS REALIZED BY MOVE TO T+1
Overview of the SEC’s Proposal

• Proposed compliance date of March 31, 2024.
• Shorten the standard settlement cycle for security transactions from T+2 to T+1.
• A lot of ink spilled on T+0 but no actual proposal.
• A three-pronged approach to requiring same-day affirmation (“SDA”) for institutional trades.
  − BDs must have customer contracts in place to ensure same-day allocation/confirmation/affirmation and movement of securities/funds by T+1.
  − IAs must keep records to show same-day allocation/confirmation/affirmation occurred.
  − CMSPs must (i) have P&Ps to facilitate STP; and (ii) submit annual STP public reports.
Survey of the Comment File – T+1 and T+0

• Most want a Compliance Date later in 2024, with many proposing September 3, 2024 to align with a parallel T+1 transition in Canada.
• While there is general industry support for moving to T+1, consistently expressed concerns focused on potential dislocations with non-US markets still on T+2 (e.g., ETFs, ADRs) as well as FX funding challenges and increased settlement fails.
• Some commenters recommended that T+1 not apply for ADRs and ETFs with non-US components.
• Lots of concerns with trying to tackle T+0 now (though many individual commenters were supportive).
• Need for wholesale changes to existing trade flows and practices.
• Concerns around broader market structure effects (e.g., sec lending, payment systems).
Survey of the Comment File - SDA

• Many commenters found the SEC’s approach to SDA overly prescriptive.
  − Strong objections to the requirement that BDs have customer Ks in place to ensure same-day allocation/confirmation/affirmation and movement of securities/funds by T+1.

• A range of alternative regulatory approaches proposed.
  − No SDA rules needed, the market can achieve the outcome by itself.
  − SDA rules should be more principles-based and outcomes-focused.
  − Lots of “squishy” but familiar legal standards suggested (e.g., “reasonably designed”, “as soon as technologically practicable”).

• Concerns about how SDA could be achieved for market participants primarily based outside of the US (i.e., Australia).
Survey of the Comment File - SDA

- Concerns also raised about the feasibility of SDA in certain instances (notably ICI letter):
  - Newly-established brokerage accounts.
  - Delays in reporting of average pricing for block trades.
  - Where there are periods of high volumes (i.e., a significant market closing session).
- Also concerns about unintended consequences of forcing prescribed practices.
  - Some commenters advocated for the retention of manual processes so long as SDA is still achieved.
  - Some commenters noted that ETC functionality should still persist for the same reasons.
  - SIFMA and Fidelity noted potential issues around how PB transactions would be handled under the SEC’s proposed SDA approach.
Survey of the Comment File - SDA

• But also some suggestions around additional enhancements and initiatives:
  – General support for encouraging further automation and other technological efficiencies around post-trade processing.
  – Encourage the use of third party service providers to satisfy the new requirements:
    o Third parties (e.g., PBs, custodians, OMS vendors) should be able to help counterparties achieve SDA.
    o Third parties should be able to help IAs satisfy the proposed SDA recordkeeping requirements along the lines of what ITP does today under SEC no-action relief.
  – Promote implementation and use of standard settlement instructions (SSIs).
  – Promote dematerialization.
Key Open Issues and Next Steps

• What will the Compliance Date be?

• How difficult are the cross-border and FX issues around achieving settlement in a US T+1 environment?

• How difficult are the cross-border issues for achieving SDA?

• If the SEC sticks with its proposed approach for prescriptive requirements around SDA (e.g., papering contractual arrangements, eliminating manual processes and minimizing ETC), what are some potential responses/strategies/solutions?

• What is the next step on T+0?
QUESTIONS
SESSION 2

Move to T+1 in India

Lyndon Chao
Managing Director
Head of Equities and Post Trade
Asia Securities Industry & Financial Markets Association (ASIFMA)
ASIFMA Updates: India’s Move to T+1 Settlement Cycle

Lyndon Chao
Managing Director
Head of Equities and Post Trade, ASIFMA
ASIFMA Updates: India’s Move to T+1

- Sep 2021
  - SEBI announced Jan 2022 go-live with optionality for Exchanges to either offer T+1 or T+2 settlement cycle
  - ASIFMA in response organized calls with the Exchanges (BSE, NSE) and the CCPs (ICL, NCL)
    - Requested to delay go-live date, consult the industry, and do away with optionality
  - Later, ASIFMA wrote an open letter (jointly with ATF + Investment Association) after several direct letters to SEBI chair requesting the above, along with challenges around pre-funding, hand delivery, time-zone differences, FX funding and liquidity, tech and ops readiness, among others

- Oct 2021
  - ASIFMA formed a T+1 WG and escalated the request to the MOF and the PM office
  - Later, MOF moderated a joint ASIFMA-SEBI-RBI call to discuss the issue, which unfortunately SEBI could not join
  - ASIFMA later wrote a letter to MOF, SEBI, and RBI, giving in-principle support for T+1 and again with a request to delay and consult, along with other key issues

- Nov 2021
  - Exchanges announced delay in go-live to 25 Feb in phased manner
ASIFMA Updates: India’s Move to T+1 (cont’d)

- **Dec 2021**
  - ASIFMA wrote a thank you letter to MOF, SEBI, and RBI for the delay, while further highlighting challenges of T-Day custodian confirmation deadline, and requested to move it to mid-day T+1
  - ASIFMA also separately reached out to FEDAI and former RBI Dy Governor **Mr. Haroon Khan** to discuss FX funding and liquidity issues; in Jan 2022, FEDAI approved custodians to carry out FX outside market hours i.e., 24x7

- **Jan 2022**
  - ASIFMA organized call with NSE/NCL to discuss the challenges of T-Day vs T+1 confirmation deadline
  - As a follow-up to the call, ASIFMA conveyed industry consensus to NSE/NCL to move the confirmation deadline to 9:30 am T+1

- **Mar 2022**
  - After 25 Feb go-live, ASIFMA again organized call with NSE/NCL to discuss the challenges of T- Date vs T+1 confirmation deadline
    - NCL emphasized to squeeze operational timelines so that pay-out can be done before market close in case of T+1 confirmation, though reasoning behind that was not very clear
ASIFMA Updates: India’s Move to T+1 (cont’d)

• **Apr 2022**
  - ASIFMA coordinated with **BBF** (Bombay Brokers Forum) and **ANMI** (Association of National Exchanges Members of India) to share our concerns and they helped us understand how retail investors need the funds before 3:00pm to invest in mutual funds

• **May 2022**
  - SEBI Chair **Ms. Buch held a meeting** with our WG members, Exchanges, and CCPs
    - **Custodian were tasked to provide additional information** regarding clients having time-zone issues, number of mismatches, reasons for such occurrences, among others
  - While our local custodian members are working to compile the info, we are also **coordinating with the AGC** to ensure GCs also share their challenges around T-Date vs T+1 conf. deadline

• **Other Updates**
  - In Mar 2020, former WTM Ms. Madhabi Buch took over as **new SEBI chair**, as the outgoing chair Ajay Tyagi’s term ended on 28 Feb; FM Sitharaman lauded Tyagi’s work for India’s move to T+1
  - In Apr 2022, **FTSE March Country Classification Update** expressed concerns that in current T+1 settlement process FPIs might need to pre-fund
Thank you
SESSION 3

Coping with Accelerated Settlement in ASEAN+3 Markets

PANEL DISCUSSION
SESSION 3
Coping with Accelerated Settlement in ASEAN+3 Markets

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CLOSING REMARKS

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Thank you for your participation