Harmonising Settlement Cycles

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Introduction

- The global settlement landscape includes multiple non-harmonized settlement cycles, ranging from T+0 to T+5
- Currently, each market determines its settlement cycle individually, either by laws and regulations, or by non-binding market practices
- Differences in settlement cycles create complexities in cross border trading
- More than 20 years ago, an US industry task force, the Bachmann Task Force, undertook an independent evaluation of the clearing and settlement practices of the US securities markets. It’s most significant conclusion was summarised in a simple equation:

TIME = RISK

Pros & Cons of SSC

There is wide consensus among market participants on a global scale that a move to shorter settlement cycle (SSC):

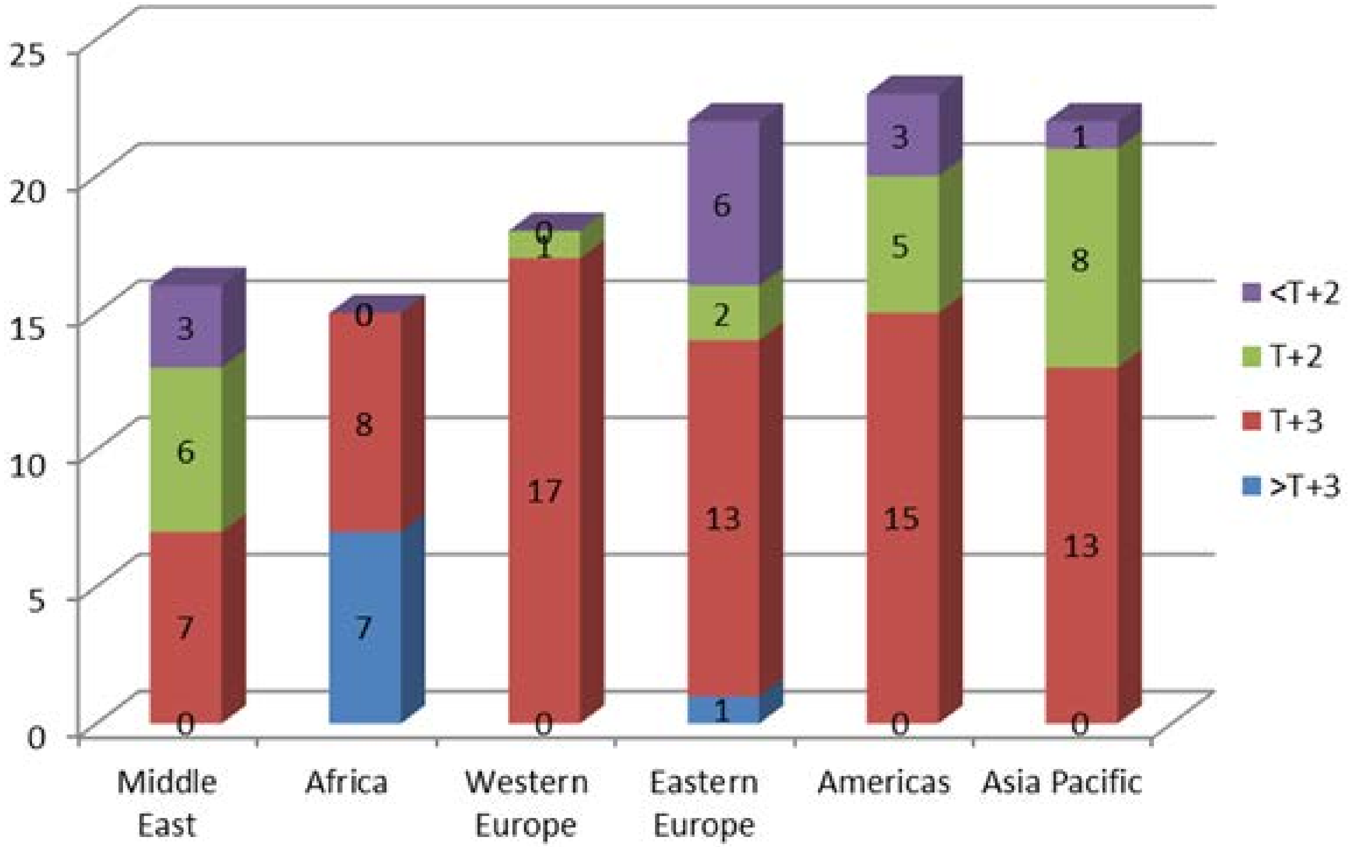
- Reduces Risks
  - Lowers counterparty risk. Less time being exposed to the possibility of the other party defaulting
- Optimises Capital
  - Lower aggregate collateral requirements, as the exposure window shortens
  - Capital becomes available earlier
- Streamlines Processes
  - Efficiencies in pre-settlement to be achieved – Automation of back office processes
  - Corporate Actions processing will be standardised

BUT

- A short-term increase in failed settlements should be anticipated
- Time for cross border trades from distant time zones would be compressed – FX market operates on T+2
- Increased pressure on financing settlement - securities lending and borrowing, intraday and overnight credit lines will be stretched

Global View

Equities



Europe & Eurasia

Less than T+2	T+2	T+3	
Armenia (T+0)	Germany	Austria	Norway
Kazakhstan (T+0)	Bulgaria	Belgium	Poland
	Slovenia	Denmark	Portugal
	Russia	Finland	Spain
		France	Sweden
		Italy	Switzerland
		Netherlands	UK

- Most EU countries have scheduled to shift to T+2 on 6 October 2014
- Spain will shift by end 2015
- Cyprus, Czech Republic, Estonia, Greece, Iceland, Latvia, Lithuania, Romania and Slovakia have not announced any plans
- Russia started moving gradually from T+0 to T+2 in March 2013

Americas

Less than T+2	T+2	T+3
Guatemala (T+1)	Panama	USA
Bolivia (T+0 to T+2)	Chile	Canada
Argentina (T+0 to T+3)	Venezuela	Brazil
Uruguay (T+0 to T+3)		Mexico
		Colombia
		Costa Rica

- USA has no firm plans for a shift to T+2 yet. DTCC commissioned BCG to conduct an independent study of a change to either T+2 or T+1, and asked SIFMA to endorse a move to a shorter cycle. ICI endorsed a move to T+2
- It is expected that the move to T+2 in Europe will prompt a similar move in the US and Canada

Asia Pacific

Less than T+2	T+2	T+3
China (A Shares)	Hong Kong	China (B Shares)
	India	Japan
	Korea	Singapore
	Taiwan	Australia
	Pakistan	Indonesia
		Malaysia
		Thailand

- Given that major markets in Asia already operate on T+2, combined with that most of Europe will move to T+2, the Asia Pacific region will most likely harmonise to T+2

Middle East & Africa

	Less than T+2	T+2	T+3	More that T+3
Middle East	Saudi Arabia (T+0) Israel (T+1)	Bahrain Egypt Jordan Kuwait Palestine Turkey United Arab Emirates	Lebanon Morocco Oman Qatar Tunisia	
Africa			Botswana Ghana Kenya Mauritius Nigeria West Africa Zambia Tanzania	Malawi (T+5) Namimbia (T+5) South Africa (T+5) Swaziland (T+5) Uganda (T+5) Zimbabwe (T+7)

SSC Enablers

In order to shift to a shorter settlement cycle, the market would have to implement a series of operational, technological and infrastructure changes, including:

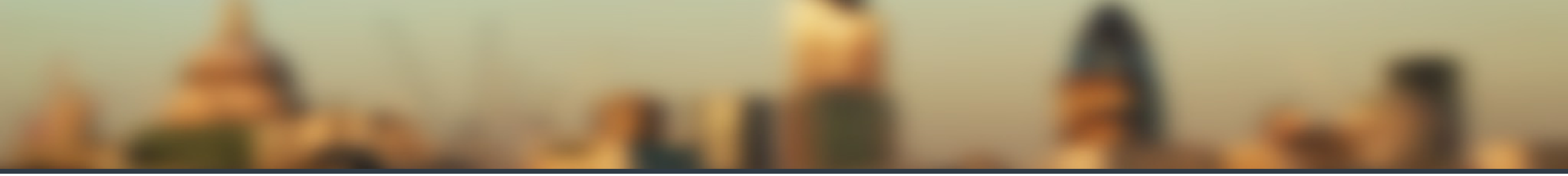
- Migration to Trade Date Matching
- Mandated Match to Settle
- Cross-Industry Standing Settlement Instruction Solution
- Dematerialisation of Physicals
- "Access Equals Delivery" rule
- Compressing timeframes
- Real-Time Processing
- Transformed Securities Lending Process
- Transformed Foreign Buyer Process
- Increased Penalties for fails
- Retail Funding Acceleration

Global Harmonisation

- Markets are becoming increasingly interconnected
- Differences in settlement periods increase the complexity of cross border transactions and have consequences in terms of safety, cost and efficiency
- Corporate actions processing becomes complicated across national borders and leads to increased market claims and compensation payments
- A harmonised settlement cycle across national markets would ease the post-trading difficulties for foreign investors
- Shorter, but not too short: Extremely short settlement cycles (T+0 or T+1) require pre-funding and special arrangements for the settlement of cross border transactions. Coupled with the need for FX, foreign investors face increased risks, operational inefficiencies, complex logistics and tied up capital
- The European HSC Group, after taking into consideration the cycle for FX spot transactions, the start of overnight settlement cycles on SD-1 and the required investment costs, concluded that a T+2 cycle has more merit in optimising cross border settlement as opposed to T+1 or T+3
- Globally harmonised cycles could encourage the multi-listing of securities across markets

Conclusions

- Cross border investment would benefit from a globally harmonised settlement cycle
- Operational efficiencies would be achieved in post-trading processes
- Diminished counterparty and operational risk in an interconnected global market with a long chain of intermediaries
- Reduced collateral requirements, which would counteract the scarcity of high quality collateral



Thank You