In an earlier article for *Best Execution*, we looked at some of the likely impacts of the upcoming T+2 settlement regime on asset managers and investment firms, and we reviewed the various operational burdens that banks and institutional brokers will face.

At the time of writing the October 6th deadline is imminent, so it seems a good time to re-visit the subject. Just how ready is the industry? What are the key considerations for buyside and sellside firms with T+2 fast approaching? And how can technology vendors and service providers assist with a smooth transition?

**How ready are firms for T+2?**

From all accounts it would seem that the majority of sellside firms are now geared-up for T+2, having invested in the necessary technology and updated their processes to handle the upcoming changes. However, many of their clients on the buyside seem less engaged, showing a marked lack of interest, investment or action.

This situation is not unique. Earlier this year, GBST published a white paper about the introduction of T+2 to the Australian equities market¹ and the implications of a potential move to T+2 in the US². In both research studies, we found little appetite from smaller buyside firms to make the operational and technical changes that were required. In fact even larger firms struggle to keep up with the operational challenges associated with T+2.

Here in Europe, anecdotal evidence suggests that the situation is likely to be similar. This means that many buyside firms – including some of the biggest names – will be pushing their brokers to continue to offer T+3 settlement terms, regardless of the knock-on effects.

These effects cannot be understated. Institutional brokers who agree to continue providing T+3 terms will be on the hook for covering the additional capital requirements of that extra day, which could have serious risk and treasury implications for them. In some cases this could even render the business unprofitable because the brokers will in effect be providing additional funding to their clients.

**What can the sellside do?**

Faced with this predicament, sellside firms have a number of choices:

- Refuse to offer T+3 settlement terms
- Agree, but pass on the additional capital costs to their clients
- Agree, but offer rewards – such as lower commission thresholds or rebates – to clients who are efficient in their post-trade processes

In the short term at least, it is unlikely that brokers will refuse point blank to offer T+3 settlement, particularly to their larger customers, otherwise they could end up losing too much business to their competitors.

The second option, passing the charges...
on, is tricky. Traditionally, sellside firms have not charged capital costs on to their clients, so this could be a difficult pill for the buyside to swallow. Particularly as any costs passed on to investment firms will have an impact on their returns, on fund performance and ultimately on the end investor.

This leads us to the third option, rewarding efficient post-trade processing, which is probably the most palatable to the buyside.

In order to make this happen however, brokers will need to clearly articulate to their clients what they consider to be best practices around T+2, providing all the necessary guidance as to when allocations will confirm and when affirmations are needed.

A clear channel of communication between both sides is needed.

**Latest AFME recommendations**
In its recently published briefing note³, The Association for Financial Markets in Europe (AFME) made various recommendations around what market participants should be doing in the final run-up to T+2. One key proposal was that firms should aim to complete trade allocation, confirmation and affirmation, and complete input and matching of settlement instructions, on T+0.

With same-day affirmation a key component to ensuring efficient settlement, this could be one of the areas where institutional brokers may wish to offer rewards to clients who achieve it. And the smart buysides, who have the vision to see how this will lead to a positive impact on their returns, will invest in ways to make it happen.

**Reference data**
Another area of focus, also covered in the AFME recommendations, will be around client reference data and ensuring that standard settlement instructions (SSIs) are 100% correct. So brokers will need to provide clear specifications regarding data formats for SSIs and other source data.

Additionally, there are industry initiatives, such as Omgeo & DTCC’s global repository for SSIs⁴, that can help facilitate this by ensuring all settlement instructions, Omgeo codes, SWIFT codes, etc., are in place and accurate across the bank.

**Out-of-scope transactions**
One issue that may arise post-October 6th is that T+2 is not mandatory for all transactions and asset classes, with OTCs for example falling outside the scope of T+2. In its recommendation document, AFME has proposed that as best practice, firms should aim to settle all trades, including out-of-scope OTC transactions, on a standard T+2 settlement cycle. However, it is not always possible, or even desirable, to settle all out-of-scope transactions on T+2.

**How technology can help**
Firms that try to adopt a “one size fits all” approach will struggle unless their middle and back office systems are actually designed with the capability to run multiple markets, currencies, assets, etc. on the one platform. And firms that run multiple systems to handle different markets and different settlement cycles will not benefit from any economies of scale.

So in order to continuously adapt to the post T+2 environment, market participants on both the buyside and the sellside need technology frameworks that allow process changes to be rapidly committed into workflow, particularly when dealing with multiple settlement structures and cycles.

Rules-based systems are particularly effective in this regard. With a rules-based system, firms can write rules to match events, adapt processes to markets very easily, and rapidly adapt the workflows to meet the new rules.

At GBST, we have clients who use our rules-based technology for post-trade processing in multiple markets around the world, all of which have their own unique settlement requirements. And we believe that it is this implementation of innovative, smart, cost-effective technology, enabling rapid operational process change, that is the key enabler and differentiator for effective T+2 participation, not just in Europe, but on a global basis.

The final countdown to T+2 is under way. Will you be ready?

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2. [http://gbst.com/t2-settlement-whitepaper](http://gbst.com/t2-settlement-whitepaper)