

# The race to T+1 settlement

WHITEPAPER |

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# The introduction of T+1 trade settlement

The adoption of amendments by the SEC to the Exchange Act Rule 15c6-1 in the United States will shorten the trade settlement cycle for most US securities transactions from the current T+2 time frame to trade date plus one business day (T+1). The shift to T+1 settlement will affect organisations across the financial services sector – both in and outside the US – and encompass a wide variety of financial products.

Other locations besides the US are adopting accelerated trade settlement. Canada intends to bring in T+1 settlement to coincide with the US, while India has already started a phased transition to a T+1 cycle. Clearly, with the US now implementing the shift to T+1, the rest of the global market is likely to follow suit, eventually even moving to T+0 settlement.

Jurisdictions in Europe and Asia are currently weighing up the benefits of a move to accelerated trade settlement. The improvement of settlement times is already a regulatory goal in Europe, although a rather different approach is being employed to that used in the US. The EU's Central Securities Depositories Regulation (CSDR), for example, introduces cash penalties intended to deter participants that cause settlement fails, while creating an incentive for the timely settlement of securities.

US regulators anticipate the transition to T+1 settlement will reduce systemic, counterparty and operational risk, especially in times of high volume and market volatility. Financial institutions' market and counterparty exposure over the settlement period should lessen, which could lead to a reduction in liquidity requirements. In addition, capital and operational efficiencies should result, such as lower costs, standardised industry processes and infrastructure modernisation.

# Accelerated settlement: a race and an opportunity

## T+1 settlement

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COMPLIANCE DATE  
**MAY 28. 2024**

The move to T+1 settlement in the US will have a deep impact, given that this is the world's largest securities market, and that institutions across the globe trade in US securities. It will be felt not only by US investors and service providers, but also by investors and custodians in Europe and Asia Pacific – for whom time differences and increased complexity will add to the challenge.

The incoming T+1 framework will put pressure on banks to review settlement practices. Currently, these processes are often neither joined up nor fully automated, and areas of manual processing remain. Settlement failures occur regularly, and a lack of standardisation in the way financial data is communicated exacerbates difficulties. The shortening of the settlement window will impose added strain on this already fragmented area.

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The move to T+1 settlement is taking place against a backdrop of pre-existing industry change. Financial institutions must adapt to a post-Covid shift towards digitalisation, cut operational costs, and improve margins. They are under pressure to process more transactions and a greater volume of data, across a wider breadth of asset classes. Budgets, and the capacity to absorb change, are already stretched.

Readiness for T+1 settlement varies from firm to firm. Industry feedback suggests that a number have T+1 projects under way, while a proportion have at least begun initiatives. Others, perhaps surprisingly, have not yet acted at all. Some – typically large – institutions are well placed to cope, with sophisticated systems in use, while others – often smaller organisations – still rely on manual processes and legacy systems.

In deciding how to meet the demands of T+1, financial firms face a choice. Should they fall back on the traditional route of hiring more people? Or adopt higher levels of automation?

Given that an eventual transition to T+0 settlement is likely to happen, introducing greater automation is surely the best route forward. Quite simply, in the future, human operatives will be unable to cope with processing speeds and the pace of change. To meet the immediate challenge of T+1, and to lay the groundwork for T+0 readiness, banks should invest in reliable, proven IT systems, as well as take advantage of the latest AI and machine learning innovations. These technologies will enable them to adapt quickly to future change, promoting a proactive approach that augments manual operational capability. Greater standardisation will be a necessity, however, if the industry is to achieve high levels of automation.

Understandably, industry attention is sharply focused on the looming T+1 implementation deadline. Yet the shift to a T+1 settlement cycle also presents financial institutions with a golden opportunity to improve the efficiency of their operations. Modernising technological infrastructure will help in a variety of ways. For example, having access to real-time data and superior reporting will enable them to make better informed decisions, identify inefficiencies, and work with higher quality service providers.

Will the financial sector tackle T+1 settlement using internal resources, or will it turn to external organisations? Feedback from market participants suggests that while some companies will carry out in-house projects, plenty of others are looking to partner. What is clear, however, is that firms are looking for partners with a deep understanding of the potential operational impact of T+1, proven and reliable technology, as well as a long-standing commitment to high levels of support going forward.

# How to improve post trade processing

With over four decades of experience, and an extensive knowledge of delivering post trade solutions and services for the financial sector, SmartStream is uniquely well positioned to help organisations meet the demands of accelerated trade settlement.

A trusted partner to many of the world's top 100 financial institutions, SmartStream's solutions and services range across the middle and back office, spanning the post trade ecosystem.



reddot winner  
interface design

## SmartStream: uniquely positioned to assist in meeting the demands of T+1

### Current situation within banks

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Low quality data  
Duplicated efforts  
Delayed processes  
Manual interfaces

### SmartStream engagement

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Standardisation  
Trusted, centralised data sources  
Straight Through Processing  
Automated interfaces

### Benefits

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Post trade enrichment, allocation reduced or eliminated  
Error and breaks reduced  
Regulatory reporting timely, accurate and automated  
Cross-firm interactions secure and efficient

## Post trade processing from execution to settlement

SmartStream has created a powerful control layer that consolidates fragmented infrastructures across asset classes and business lines. It ensures that all trade processing steps from execution through to settlement are based on correct and verified data.

The packaged solution, which incorporates industry best practice, creates a volume-insensitive, instrument-agnostic, post trade environment. Integrating rapidly with in-house and third-party applications, utilities and services, it draws together reconciliation, exception management and process flows into a single application for closer control over post trade processing.

It automates the transaction lifecycle from the point of execution through to confirmation, and can handle a broad range of asset classes across the T+1 settlement cycle.

Our technology ensures that processing is carried out only with verified and checked data, and also resolves exceptions as early as possible. It delivers on flexibility, allowing institutions to assign users to assets, markets and counterparties, rather than splitting control into traditional silos.

Reconciliations

Cash & Liquidity Management

Collateral Management

Corporate Actions

Reference Data



## Post trade solutions that meet tomorrow's challenges with confidence

SmartStream's post trade solutions are deployed by leading global institutions, and this experience has given us deep operational insight. This knowledge also enables SmartStream to help other financial sector firms review and improve their technological infrastructure and operations.

SmartStream's solutions have been developed in response to industry requirements and have won numerous industry awards. These include a prestigious Red Dot Design Award, recently presented for the UI/UX design of our new pure AI, cloud-native application for financial data reconciliations.

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We focus constantly on innovation and have invested in R&D heavily, which has made us an industry leader. The company is staffed by highly experienced industry professionals, with deep operational knowledge. Access to a vast pool of client knowledge, on which we can draw, ensures SmartStream's customers are kept abreast of the latest industry developments.

At SmartStream, we are particularly interested in deploying advanced technologies in our solutions. The company has also established a specialist Innovations Lab to study the application of AI and machine learning to customers' specific business requirements. As a result of this focus, the latest technologies are currently being incorporated into all our post trade solutions.

Flexibility and ease of access are another important consideration for us. Our solutions can be installed on-premises but may also be tapped into in a variety of other ways, for example, via APIs and micro-services, or deployed as managed services and cloud environments – meaning our clients are able to adapt more rapidly than ever to the changing landscape of today's financial industry.

# Reconciliations

Settlement is heavily dependent on reconciliations, at every stage. The compressed time frame of the incoming T+1 settlement cycle, combined with growing data volumes, will pile pressure on financial institutions' reconciliations infrastructure, particularly where this is made up of fragmented legacy systems and manual processes.

The key to solving T+1 compliance successfully is automation. As the deadline for implementation is on the horizon, automation projects must be rapid and slick. Firms should also keep in mind that T+1 settlement will, most probably, be no more than a step on the way to an eventual T+0 cycle.

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With the deadline for compliance approaching, turning to a third-party technology specialist can be useful. Banks should look to partner with an organisation that can assist them to deliver on time, but which has, in addition, the experience and insight to help them review their current infrastructure and identify where operational improvements can be made.

While the implementation date for T+1 settlement tends, naturally, to dominate companies' thinking, it would be wrong to overlook the opportunity T+1 brings to boost the efficiency of their businesses. By scrutinising technological infrastructure and working practices, they can seek out where inefficiencies occur, refine decision-making, and identify peers and service providers with higher quality data, thereby reducing breaks and operational overheads.

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Institutions require a reliable, proven reconciliations system. It should be able to handle multiple asset classes, be volume-insensitive, and be capable of dealing with new and existing data formats. Ideally, it will allow firms to move away from traditional end-of-day reconciliations processing and to adopt to a real-time, intraday approach.

A system that offers a fully controlled reconciliations architecture is desirable, as is one that delivers comprehensive exceptions management and sophisticated reporting capabilities across all asset classes. A holistic view of the data flowing in from the disparate sources that affect the T+1 settlement cycle is advantageous, too.

SmartStream offers proven reconciliations technology that automates and standardises processing. It is asset-class agnostic and handles a wide range of reconciliation types. It also delivers solid control and a comprehensive exception management layer.

Rich exception handling capabilities set our reconciliations processing technology apart from other, less established alternatives, providing an in-depth insight into the state of transactions as they transition through the settlement lifecycle. Our systems facilitate the categorisation, prioritisation, and allocation of exceptions so that problems can be identified quickly and sent to the appropriate team for resolution.

SmartStream reconciliations processing applications provide financial institutions with real-time information, enabling users to identify breaks rapidly, and to view them by asset class or segmented using other variables. It allows banks to escape the constraints of traditional, end-of-day reporting, and empowers managers to make better informed decisions and to control risk more effectively. Importantly, as these capabilities come built into our technology, there is no need for firms to build their own complex reporting systems.

Looking beyond the day-to-day, managers can carry out detailed trend analysis and understand where issues that undermine processing efficiency stem from, for example, from source systems, bad, late, or missing data. They can see, via a dashboard, which service providers have delivered on time, or which are connected to the highest frequency of data-related breaks, across asset class and product lines. Given the pressure T+1 will bring to deliver at speed, and given the ever-increasing pressure on budgets, the ability to establish where the weakest links in the ecosystem of service providers and peers lie confers a great advantage.

SmartStream's technology monitors data flows from all the various business areas that touch T+1 settlement. It can process tens of millions of transactions per day, from disparate sources, including intersystem, pure financial and trading systems reconciliations, creating a truly holistic view. It gives organisations a comprehensive picture of where breaks and inefficiencies lie, allowing them to detect and resolve trouble spots at speed. It is unique in being able to identify breaks and problem areas across such a broad spectrum of sources.

Furthermore, the holistic view delivered by our platform enables organisations to understand what their operational DNA currently is and to create KPIs which they can then deploy to assess the value delivered by the T+1 reengineering process – a significant advantage for firms looking to analyse the “before” and “after” of a T+1 implementation and to establish its cost-benefits.

Our solutions incorporate sophisticated AI and machine learning technologies. These techniques assist with the processing of large, complex data sets, speed up reconciliations onboarding, and lift match rates. They improve self-sufficiency, giving business users powerful analytical tools to onboard and manage reconciliations easily, while simultaneously reducing reliance on IT teams. An advanced, AI-enabled exception management module is also available.

With solutions installed in Tier 1 banks across the globe, SmartStream has the experience and insight to support other organisations to obtain the greatest possible benefit from T+1 projects, for example, helping them to analyse their current infrastructure, evaluate weak points, decide whether to reuse or remove existing systems, or establish where operational improvements may best be made.

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# Cash & Liquidity Management

T+1 settlement will push firms to pay for and deliver securities faster than at present, which is likely to increase intraday liquidity demand. To manage the heightened demand for liquidity, treasuries may need to use more short-term funding, such as repos and money-market funds. These instruments can be volatile, and if short-term rates rise, or compressed settlement times create greater competition for the same funding sources, costs will increase.

The move to T+1 will affect not only US banks, but all banks trading securities covered by the SEC ruling. The impact will not just be on direct currency funding but on cross-currency funding. The industry could start to change how it settles cash flow, too, for example, moving to real-time gross settlement.

T+1 settlement will mean there will be less time for discrepancies to be identified and fixed. If a trade has not been confirmed and liquidity projections are not correct, this could lead to late funding requests.

Some larger banks already have strong intraday and real-time liquidity solutions in place. Others, notably smaller organisations, are not ready to handle real-time liquidity management. Typically, these may turn to additional operational resources to handle the demands of T+1 settlement.

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Investing in advanced technology offers an alternative to the traditional approach of using costly extra resources. SmartStream's cash and liquidity management solution delivers real-time cash and liquidity management, consolidating existing siloed infrastructures, and capturing transactions from internal and external sources, to create a single, global view of balances across all currencies and accounts.

SmartStream's cash and liquidity management technology enables institutions to understand their funding, borrowing, and lending requirements in real time, while the timely information it delivers about payment obligations helps banks identify problems promptly and take rapid corrective action. Importantly, the solution allows firms to optimise the use of all available liquidity. It also improves confidence when making funding decisions.

# Collateral Management

The introduction of T+1 settlement is likely to reduce the credit, market and liquidity risk associated with unsettled trades. In addition, it may help bring down the amount of initial margin that financial institutions need to post.

Some banks have fully automated their collateral management processes, while others continue to manage certain elements on spreadsheets. The picture varies across the industry, and flexible technology partners can help support banks' individual requirements. Automation, while desirable, is often difficult for organisations to achieve, particularly where IT systems do not interact seamlessly.



To meet the demands of T+1 settlement, institutions must automate all aspects of the collateral management process, including agreement, booking, substitutions and settlement notifications. Firms need to identify and reduce manual work, automate connections to internal and external systems, and eliminate manual uploading of data. An efficient fails management process is essential, too. A collateral management system that is easily and inexpensively upgradable is beneficial.

SmartStream provides an established, end-to-end, automated collateral management solution which has been implemented by a broad range of financial institutions across the globe. It can be deployed in the cloud, in a hosted environment or on-premises, in all cases as a private installation without the commingling of data.

SmartStream's collateral management solution offers connectivity to institutions' internal systems via application programming interfaces (APIs) that allow programmatic interactability. When banks want to send and receive information, they can do so on a real-time notification basis. The APIs are backwardly compatible, so it is not necessary to change any connectivity points when upgrading.

Additionally, connectivity and automation are available through utilities such as Acadia. Finally, interactability between the collateral management solution and other SmartStream applications, for example, reconciliations processing solutions, also speeds up the settlement and failure management process.

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# Corporate Actions

The move to T+1 settlement will mean that any corporate actions affecting instrument static data (and thus impacting trade matching), will need to be processed within 24 hours of trade execution, to avoid failed settlements.

Organisations dependent on custodian data and spreadsheets to handle events may struggle. Time zone differences and any event-related FX considerations will compound difficulties further. With settlement discipline an increasingly important regulatory focus, pressure to avoid errors is rising. The need for greater speed will also affect voluntary events – especially in areas such as prime brokerage and securities lending.

Changes in market practice changes are likely, for example, the alignment of event Ex dates and record dates in the US, as well as the potential elimination of the cover/protect period. Additionally, the market is keen to see greater use of SWIFT and ISO20022 standards to facilitate the move to an accelerated investment lifecycle.

Systems and processes will need to be updated to accommodate new market rules and standards, as well as the compressed settlement time frame – the move to T+1 presents an important opportunity to undertake change to IT infrastructure and make working practices more efficient.

SmartStream's corporate actions solution uses event-driven automation and active alerting to provide effective governance of all corporate action events and proxy meetings. It delivers real-time processing for the complete lifecycle, handling complex events and providing visibility of all the corporate actions affecting the business. The solution lowers the risk of errors or missed elections, improves efficiency, as well as reducing administrative burden and costs. It is available in a cloud environment or as a deployed solution.

On demand availability offers a particularly useful way ahead, given the decreasing time firms have at their disposal to prepare for T+1 settlement. This option removes the requirement for a lengthy implementation phase and burdensome infrastructure, making it easy and cost-effective to adopt SmartStream's sophisticated corporate actions processing technology.

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# Reference Data

Accessing accurate reference data, at speed, will become ever more vital given the compressed time frame imposed by T+1 settlement. Lack of standardisation remains a problem for the industry, however.

Numerous codes and systems communicate financial information, while individual data vendors use proprietary methodologies, which has created multiple ways of identifying financial instruments. A network of complex, non-communicating symbologies now exists across institutions' front, middle and back offices – obstructing efforts to access reference data information rapidly.

In response to this difficulty, SmartStream Reference Data Utility – which is a neutral, industry solution – has developed a unique, cross-asset symbology cross-referencing service. This creates a common language which fills information gaps in and connects disparate webs of symbologies, “joining up the dots” and allowing previously non-communicating systems to communicate with each other.

SmartStream carries out cross-asset symbology cross-referencing at great breadth and depth, drawing together sub-asset class level data from over 110 options and futures exchanges globally. Its symbology cross-referencing capabilities can also be accessed as a managed service.

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# Conclusion

There can be little doubt that the reduction of settlement cycles for large numbers of broker-dealer-executed securities in the US and Canadian capital markets will have a significant impact on financial institutions' existing technology landscapes and operational workflows.

The introduction of T+1 poses a daunting prospect for many institutions, especially as capital markets businesses tend, in any case, to struggle when 'translating' regulatory directives into practical technological and operational action.

Next-day settlement leaves little time for manual intervention and processes will need to be automated across the trade cycle – the traditional strategy of using additional human resources "to throw at the problem" will simply no longer be an option.

Firms should already be well into the planning phase. They should be assessing the implications of T+1 settlement across the trade cycle, as well as identifying the changes needed to technology, operations, control processes, and internal behaviours.

Given the complexity of the task, the short time frame to be ready, and that some firms may lack in-house expertise in all the technologies and process automation techniques necessary for success, organisations should seek the expertise of a trusted technology partner.

An experienced external partner can help institutions to implement the technologies needed to satisfy regulatory mandates effectively and to settle trades accurately and efficiently. In addition, it can assist firms to ensure that the investment made now to achieve T+1 also lays the groundwork that will eventually support a move to T+0.

With many years of in-depth industry experience, SmartStream – which has been at the forefront of innovation for four decades and has an impressive track record of deploying post trade processing solutions for clients globally – is ideally positioned to help firms meet the challenges of T+1 settlement.

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By scrutinising technological infrastructure and working practices, they can identify where inefficiencies occur, refine their decision-making, and identify peers and service providers with the products and services to enhance the overall effectiveness and operational resiliency of the business.

Finally, it is important for the industry not to forget that while the move to accelerated settlement brings a degree of upheaval, it also opens the door to innovation. New solutions such as AI and enhanced data checks can help automate processes and achieve STP – much of this technology is already in existence and can be transformative in its impact.



## About SmartStream

For more information visit:  
[smartstream-stp.com](https://smartstream-stp.com)

SmartStream is a recognised leader in financial transaction management solutions that enables firms to improve operational control, reduce costs, build new revenue streams, mitigate risk and comply accurately with regulations.

By helping its customers through their transformative digital strategies, SmartStream provides a range of solutions for the transaction lifecycle with artificial intelligence and machine learning technologies embedded – which can also be deployed in the cloud or as managed services.

As a result, the majority of the world's top 100 banks rely on SmartStream Transaction Lifecycle Management (TLM<sup>®</sup>) solutions to deliver greater efficiency to their operations.