T+1 Webinar Episode 5 – The Future of Securities Finance

Amit Kohli *(0:11)*
So good morning all and welcome to our final T+1 webinar series, our final of five episodes. We previously covered an introductory session from Pirum and then securities lending, fixed income repo, collateral management. And now with our view on the future of securities finance.

I'm lucky to be joined by esteemed panellists representing different areas of the industry. Firstly, Andrew Douglas, who is chair of the T+1 Task Force Technical Group. I also have Andy Dyson, who is outgoing CEO of ISLA and securities lending industry leader and veteran. Alongside that I have another Andy, Andy Hill who is MD and co-head of market practice and regulatory policy ICMA.

Gentlemen, welcome and maybe a brief intro from yourselves in terms of background and profile starting with you, Andrew Douglas.

Andrew Douglas *(1:25)*
OK. Very strange panel that all of us have got the same name, so apologies in advance if there's any confusion. I am the chair of the UK Accelerated Settlement Task Force, a role which I have been performing unofficially since the beginning of 2024, officially from the publication of the first AST report in March 2024. My background is, sadly almost 40 years in post-trade in the securities business, for a variety of institutions, including custodians, including brokers, including infrastructures. That's me.

Amit Kohli *(2:16)*
Thank you, Andrew. I'm going to go from left to right of my screen, Andy Hill.

Andy Hill *(2:21)*
Yeah. Thanks, everyone. So, I'm Andy Hill. As you mentioned, I'm co-head of market practice and regulatory policy at ICMA. In that role we are responsible for our primary,

secondary and repo and collateral work. I've been at ICMA for 11 years and prior to that for 20 years I was a repo and short rates trader. So, what does T+1 mean for us? It's obviously going to be a big upheaval for bond markets where we're looking at what it means for impacts of bond trading, bond liquidity, bond pricing, but also very importantly the repo market, something that I can personally relate to.

Amit Kohli *(3:01)*
Great. Thank you, Andy. And then I guess finally, Andy Dyson.

Andy Dyson *(3:06)*
Amit, thank you and good morning everyone. Yeah, I'm delighted to be part of this discussion, which for me and our members represents one of the biggest single moments in the last 5-6 years in terms of the structural changes within the post-trade world that we spend a lot of time thinking about.

My perspective, I've been at ISLA now 12-13 years, as you mentioned, I'm coming to the end of that tenure in the next month or so. Been chief executive for the last 10 years. Prior to that, bit like Andy, to an extent spent quite a bit of time in various little areas of our market ranging from prime brokerage through to custodians and asset management along the way. So delighted to be part of this discussion this morning.

Amit Kohli *(3:59)*
And thank you all for joining and dare I say, this is probably the most important topic arguably of all of our T+1 series around the future and maybe we'll start with a small recap because clearly everyone we assume a working knowledge of what T+1 is but maybe some reflections from a market structure perspective, why do we feel this is such a key topic for the industry? And maybe Andrew Douglas, you could kick us off on that.

Andrew Douglas *(4:33)*
Sure. Thanks Amit. A little bit of time travel, I guess. If we can go back and identify connections between the move to T+1 in 2027 and for those of you who have long enough memories, the Giovannini report, which came out in 2000 and the first one came out in 2001. The Giovannini report contained a list of barriers to effective and efficient clearing and settlement throughout the European Union of which the UK was a part at the time, and that was certainly my first exposure to, should we say the frictional cost of the post-trade world and how that could be addressed.

And I guess if we skip forward 24 years, in large part, we're still talking about exactly the same issues, which is the availability of accurate data at the right time in the right place in order to be able to affect efficient settlement. We started T+1 predominantly because of the move in the US which set the global tone for a move to reduce settlement cycles and what T+1 is doing is making us focus very hard on those barriers to efficient and effective settlement which have existed, at least for the last quarter of a century, since 2001, to my way of thinking, and it's making people focus on it.

You've looked at the past to learn for the future, I guess. So, if we want to move to better, more efficient markets, which is the general direction of travel, T+1 is currently the de facto standard for 60% of securities settlement in global markets. When the UK, Switzerland and the EU move, that will add another, I think 12-13% to that. So, we'll be well over 70% of global markets will be on a T+1 settlement regime and we need to harmonise because of the misalignment between markets, which we've seen since the US moved, particularly in the ETF space. There is a cost to being misaligned, so we're keen to eliminate that cost. As I said, the general direction of travel is clear.

And one thing that has, I'm sure we'll touch on this a lot during the course of this conversation, one thing that has cropped up in, should we say it's become more headline material since the start of the whole T+1 initiative in the US and that's a global move towards the digitalization of capital markets and it is clear. I joke that T+1 is the gateway drug for digitalization because basically you won't be able to operate in a digital environment if you don't automate. If you don't have systems which are able to keep up with the pace of markets.

So, one of the things that I'm keen for people to flip their understanding I guess is T+1 isn't a compliance exercise, regulatory compliance exercise. It's actually a competitive exercise. It's how markets, in our case, it's the UK, it's how markets and how the individual institutions within those markets remain competitive both in their own jurisdiction but also globally.

And so, we will talk about what folks need to do in order to be compliant with T+1. What I would prefer is for us to change the dialogue slightly. As I said away from this simply being compliance with a random regulatory requirement and more towards what do I need to do to remain competitive? What do I need to do to develop a competitive advantage over the folks with whom I'm competing?

Amit Kohli *(9:09)*
Yeah. And that competitive point, maybe that's a nice segue Andy Dyson to see the reflections from a securities lending standpoint, but also we talk about as Andrew mentioned there, the US moving to T+1, UK and Europe, clearly a far more complex exercise.

What are your thoughts on that, Andy?

Andy Dyson *(9:33)*
Yes. So, some of the points that Andrew just made, I think resonate very loudly with some of the work we're doing in our markets. And the thing I would first of all highlight is that the T+1 agenda in Europe is going on against a broader backdrop of wider competitive concerns between Europe as a trading bloc and its logical trading partners both in North America and Asia. So I think that the whole competitive agenda is driving a lot of change in Europe and not just around T+1, but we expect over the coming weeks and months a series of legislative changes and proposals that are specifically designed to enhance Europe's competitive position, of which T+1 is seen as one of those keystone moments that will open up a broader competitive agenda to participants coming out of Europe.

Just on your point about thinking about some of the earlier sessions and what it means for our markets. Yeah. I was struck by how familiar some of those issues were that were discussed in those earlier episodes and themes that our market has been grappling with for many, many years are now back on the table and I think what's happening is that there's been a, if I'm honest, an opportunity to not do anything and that's been taken by the market progressively on quite fundamental issues. I think what's happening is that the laser-driven T+1 requirement is forcing people to do a couple of things.

First of all, address things they've sort of been quite happy to ignore for many years but also enhance the way they work together because without that collaboration through trade associations and other bodies, we can't get the sort of outcomes that will work for our members.

And the other thing I'd say about the T+1 agenda, Andrew mentioned that 60% of the global market comes out of North America and has now moved to T+1. We shouldn't forget that the relative complexity of the markets here in Europe, we've got multiple CSDs, exchanges, various platforms, all go back to the cross-border issues of the Giovannini barriers that Andrew mentioned and I'm one of the few people around who can actually remember them coming out the first time and what is fascinating is first of all, how much things have changed, but also in many cases, how much they haven't changed.

So, I think there's work to do, Amit.

Amit Kohli *(12:05)*
Good. Appreciate the insight there, Andy. And I guess from a fixed income lens, Andy Hill, any reflections that we should be cognizant of and keep front of mind?

Andy Hill *(12:13)*
Yeah, absolutely. I think it's, I mean, Andy touched on the point about the fragmentation in Europe across the different settlement systems, payment systems, et cetera. That's going to be a major consideration when we look at the move to T+1 for fixed income. Now if you take the UK and Andrew's situation, that's mainly an equity discussion, because gilts have been trading predominantly T+1 since 2000, I believe. U.S. Treasuries, interestingly, since 1995. This is going to be quite new for the European government bond market.

So, trying to move all of that to a T+1 settlement is going to be particularly challenging given the fragmentation and the heterogeneity of that landscape. I think interestingly and this came up in one of the previous webcasts, this isn't just a move to T+1 when you look at securities financing, this is a move to T+0.

Now securities financing transactions that everybody knows do not have standardised settlement dates, they're out of scope or they, I mean, they're not even in scope. I mean, they can trade for any date they want. But the way that markets work and here I'm talking primarily from a fixed income perspective, you're reliant on market makers. Those market makers have to fund their positions. If they're settling T+1, they're going to be funding a lot of those positions T+0. And we see that already in the US market. We see it in the gilt market. But those T+0 repos are all taking place in the same CSD. Trying to transact those across multiple CSDs is going to be particularly challenging.

Now trying to get a handle on how much of European repo government bond repo is going to move to T+0, it's difficult, but we can use the US Treasury market and the gilt market as good indicators, and it could be as much as 40%. Now that raises other interesting questions about how do you fund that because you lose or potentially lose that settlement netting ability? And what does that mean in terms of the cost of intraday liquidity? So, you could, as it's currently structured and this goes back to Andrew's point about how important it is to think of this not so much as a regulatory requirement, but as something competitive, you could have a situation in Europe where for government bond markets moving to T+1 is actually an economic loss. It's going to be more expensive than settling on T+2. So, I think a lot of work needs to be done there in terms of intraday liquidity and how the CSDs are able to manage same day settlement, particularly for repo.

But I think as well and again going back to that point about competition, I think there will be a push as much as possible to settle on T+1. But if you look at the US Treasury market and I find this a really interesting stat, 50% of the US Treasuries that are traded into Asia do not settle T+1. They settle T+2 or longer, and that's for very practical reasons, and it also helps the fact that it's not a regulatory requirement. T+1 is best practice for Treasuries. You see a similar picture with gilts as well. And the reason for this and we shouldn't lose sight of it, is there are 24 time zones, right? So, T+1 somewhere is T+0 somewhere and T+0 somewhere is actually the day before somewhere else. So, I think there does need to be a little bit of pragmatism from the regulation, there needs to be a little bit of practical consideration, particularly if you are a government DMO who's reliant on Asian investors to sell your ever increasing debt.

So, I don't think we should be overly zealous in terms of the regulatory implementation. But again, I would go back to Andrew's point that it shouldn't be seen as a compliance exercise. It should be seen as basically competing with your peers but also being a little bit practical about it as well.

Andy Dyson *(16:25)*
Can I maybe just say something. I know Andrew wants to talk as well. One of the things I just wanted to stress that I think listeners and viewers probably need to appreciate, that this isn't a thing where we just stagger over the line and go, we've done it. Actually, this is a waypoint on a journey that's much longer than this and this broad debate around accelerated settlement and I think some of the work Andrew Douglas has led on, this is clearly something which is just a point along the way. And firms really have to think about how they invest for that longer term. Andrew and Andy Hill, would you agree with that?

Andrew Douglas *(17:04)*
I certainly would, and there were a couple of comments I just wanted to make, one about your comment, Andy Dyson and one about Andy Hill's comment. You used an interesting word when you talked about where we are now. It was the word collaboration and that is something which historically I don't think we've seen a lot of in our industry. People tend to fragment and they focus on their own little world and their own problems, and I know certainly from the conversations that I've had with the UK authorities, who were all observers to the working of the AST, that one of the things that makes the Accelerated Settlement Task Force slightly different to other initiatives is that there is collaboration. Everybody realises we have a common mission and there is no advantage to not being ready to move and so there is a lot of collaboration and I think that's something that we should be encouraging and should be trying to maintain in the future.

And then to comment on something that Andy Hill talked about the pragmatism around settlement, somewhat to your question, Andy Dyson, and that is T+1 is, as you said, it's a stop on a journey to something else. And there's something else I'm getting involved in the digitalization initiative here in the UK quite a lot at the moment and one of the things that we've talked about, there is another task force that I'm running which is looking at this and one of the things that we have talked about is in the brave new world, you've got T+1. Ultimately you want to get to T+0, and I use the word want to get advisedly, but in actual fact to your point Andy Hill, there is a pragmatism that is needed. So in actual fact it's a T+anything solution that you want to get to at some point in the future where the anything gives you the flexibility to be able to accommodate those 24 different time zones because I used to joke at the start of this that I didn't want to go down in history as the guy who shut the UK markets off to Asian investors.

Because that's not what we're trying to achieve. What we're trying to achieve is to make our markets efficient and effective for everyone who wants to invest in them. And so, we have a deadline under T+1, which very specifically gives the Asia Pacific markets almost an entire business day to prepare before we shut the doors for T+1 settlement which is 6:00 AM in the morning UK time on T+1. So, we are trying to bring that flexibility in, but at some point in the future, if I'm doing a trade with somebody in Asia Pacific, why would I want to agree T+2, T+0 or even T+1 to make it virtually impossible for that deal to go through. And if you speak to infrastructures in Asia moving their domestic markets to T+1, that presents a real problem for them, because how will anybody in a time zone to the West of them, how will they be able to comply with the deadlines? So, I think there is a conversation around this pragmatism and how you end up in a situation which is supportive of global trading and not corrective, which is a real danger if we're not careful.

Andy Hill *(21:22)*
Yeah, I would totally, I would totally agree with Andrew's point. I think and I like the way you frame it, T+anything. So, you have the ability eventually we can probably talk a little bit more about this. You could settle atomically in real time in some circumstances based on some assets. But also, you have that flexibility to trade around the globe based on client needs. I'm totally agree.

Amit Kohli *(21:47)*
Thank you, gentlemen. So quite a few points to unpick there for our audience. Market nuances, the need by the sounds of it of automation, the front to back risk, this need for global market alignment. All that being said, T+1 for our viewers, it sounds like it's a real transformational opportunity for their businesses that carries also a level of risk if they don't get this right. Andy Dyson, what's your view on that just in terms of that sort of opportunity for change for the market?

Andy Dyson *(22:29)*
Yeah. I mean when we had the prep call, we talked quite a bit about automation and I see it's come through in the notes here. And I think that one of the things that we've got to just bear in mind is first of all, we aspire to atomic settlement, T+anything. I think we're quite a way away from that because I think there's some work to do and I think the obvious sort of response to that is whatever it might be, we need more automation. And I think that I can see there's a validity to that discussion because I think to a large extent more of the same doesn't really work anymore, but I think that the word frame is, first of all, I think the market has probably as I said earlier, missed a series of opportunities historically to address some of the structural rigidity and structural failings within the market around quite simple things like SSIs et cetera.

Also, we shouldn't underestimate the power of things like fines to change behaviour. So, I think in an earlier one of these series, Tim McLeod from BlackRock talked a little bit about the size of the fail fines that are sort of sloshing around the system. And I think it's really important that as market participants think about these things, when you don't judge expenditure necessarily on just how much that expenditure is, but actually judge on the things it can do to reduce things like fines and fail costs, right. So, I think that's the first thing that there needs to be a bit of a change of thinking.

The other thing which, and going back to the point that Andrew was making about fragmentation is that we do need to coalesce around some standardised ways of doing things right. We've been doing a lot of work. My colleague Tony Holland has been leading the way on thinking about best practice standards. The thing about standards is they're really, really great in concept. But we need two things. We need an adoption of a common standard. So, let's all agree on what that standard or series of standards might be. They may come through in things like best practice, certainly in our world. And then we actually need to implement them. It's great doing all this work, but we actually then need to adopt that work.

And I mean, I think you guys will see historically the frustration and I've seen it when I talk to you is that you do have already many tools available to clients to actually deal with some of these things, but they're not adopting those tools, and that's partly driven by the fact that people just do enough to get through whatever it is they need to get through from a regulatory perspective and the additional service you might be able to provide them. And we should acknowledge there are other providers, of course, the frustration is some of these tools already exist. So for me it will be about thinking about the automation, thinking about standards, but also making sure you're not missing opportunities from what's already on the table.

Amit Kohli *(25:29)*
Indeed. And part of the challenge is that level of change management, it's not just about the new shiny tool, it's how do those tools and ways of working become BAU. And I guess from, again, a fixed income perspective and ICMA Andy, how do you see the impact of, again, not getting this right?

Andy Hill *(25:52)*
Not getting it right, it's going to be hugely expensive. I don't think anyone can afford to get it wrong. But again, picking up on a point mentioned earlier, we have to work collaboratively and to Andy's point, best practice is going to play a critical role in this. Fails are expensive. I can tell you that as a former trader, you don't like failing, and even if you take the penalties out of the equation, it obviously depends where interest rates are. There's actually a very, very strong linear correlation between fails and interest rates, but you don't want to fail.

We've introduced some best practice for both repo and for bonds, cash, a while back which revolve around shaping the trades, partialing and also the use of the auto borrow auto lend programmes.

As you say, adoption, getting people to use them is another thing. Everyone can say, yeah, this is great. This should be the industry standard but then getting them to implement it is a challenge.

Andy Dyson *(26:51)*
And Andy, just on that point and we have that same challenge, I would expect our member firms to be incorporating settlement metrics in their bilateral discussions when they talk about their relationship.

So, a broker will be looking at a lender and vice versa. Not only have you got the right stock and have you got the right prices, but actually how efficient are you at settlement because inefficient settlement will drive costs even if you're not picking up the fines. The fact you've got to get five more people employed to cover all the breaks because XYZ counterparty keeps failing on you. For me that has to be a fundamental factor in the way you allocate business. Has to be.

Andy Hill *(27:39)*
I would agree, and I think that will become much more of a focus. I think people are going to realise that when things go wrong and you have fails, you don't have the time anymore to deal with it. You're literally operating in the securities financing space for a

lot of your trades. You're going to be operating within a few hours. You're operating on T+0, not T+1, so the margin for error as you rightly say I think is minimal.

Amit Kohli *(28:06)*
And maybe a sweet spot then for you, Andrew Douglas, in terms of your favourite topic of settlement efficiency and with your lens from a task force perspective, how do we try and move the dial from what two Andys have said of just talking into actual reality and market practice?

Andrew Douglas *(28:27)*
So I think, I mean it's an interesting conversation because it's bringing together a number of threads and one of the recommendations that we made upfront is that there are two types of development that people have to get into. One is the automation piece, because to Andy Hill's point about the reduction in the amount of time available, there was a study published last year that said in a T+1 environment, it sounds like you're losing 50% of the processing time. You're not, you're losing 83% of the processing time because of deadlines and time zones et cetera. So in actual fact automation is a critical success factor in being able to do all the work which is today done in a 2-day period, doing it in less than one day.

And worryingly, I still hear a prevailing attitude which is, well, I'll just pass it down the chain and the next guy in the chain will sort it out. If everybody takes that attitude by the time it gets to the last man standing, who's got to sort all of the problems out there simply isn't enough time to be able to do that, so automation is critical and it's automation of what you do, but also looking to the left and the right because we are part of a chain and making sure that your counterparties and the people who provide you with service are also automating appropriately because you can be the most efficient guy in the world, but if you're going to hand it on to someone who hasn't, to use a pejorative term, hasn't bothered to do anything, and is just doing the bare minimum to get over the line. Then you will fail.

And to Andy's point, we talked yesterday about the size of the failed trade market, which we speculated on what that was, which led me to go and look at some research that was published in 2025. And the research just, what I wrote down, somewhere north of $900 billion has been spent in the last 10 years on failed trade penalties and correction of the reasons for failed trades and the latest statistic that was published was in 2023, $96 billion was spent globally, so that's not the UK. It's not Europe, it's the global total. But I think you can guess from that a fair old percentage of that is incurred by UK and European participants. That's a lot of money that is not going into the performance of pension funds, for example.

Andy Dyson *(31:33)*
So Andrew, can I ask you a question on that? Is your feeling that because of the fragmented way Europe is constructed compared to North America, are we disproportionately collecting more fines because we're just generally more inefficient?

Andrew Douglas *(31:35)*
I don't think so because when you look at the fail rates in the various jurisdictions, they're all pretty similar. They're all around the 3 to 4%. So, I don't think that that fragmentation is having a huge amount of impact. I think there is just an endemic sort of steady state of 3 to 4% and one of the things certainly that we are talking about now within the Accelerated Settlement Task Force is if folks are going to spend all this money on automation and process redesign, what should we expect fail rates to be in the future? Is it, if we said that the target immediately post go-live in 2027 is the average of whatever it's been for the 12 months before, so let's say that the settlement rate is 97% for the sake of argument, would it be realistic? Would it be fair to say that we should be looking for that to be 98% within two years or five years or whatever the number is? I don't know what the answer to that is. But to directly answer your point, I have no evidence that suggests that UK and Europe are disproportionately bad. If we can use that.

Andy Hill *(33:17)*
I would point again to the fact that if you, and we've done this analysis, we did it for some CSDR work. But if you do look at certainly fixed income fail rates and put that against interest rates, which is your cost of failing, the penalty is just a top up, it's the interest rate. That's the bulk of your cost of failing. There is a very strong, very pronounced linear relationship which tells you that, well, the penalty should be higher is one way of looking at it, but it does get to a point where it's not really about the interest rate. It's not about the penalty, it's about the systemic problems relating to settlement and I think we're in agreement. Investment and hopefully the investment that's needed to support T+1 will go some way in addressing that.

Andrew Douglas *(34:07)*
But going back to the start of this question and I made the point of two elements that we have been trying to propose from the taskforce. The first is automate, automate, automate. Without a shadow of a doubt that gets you match fit for the future of capital markets globally. The second thing, I think, both of the Andys have touched on in

different ways, and that means there are some behavioural changes which are required which is not as necessarily expensive or complicated as wholesale systems changes. So for example, Andy Hill you talked about partial settlement earlier. Partial settlements have been around for years. The ability to partially settle, at least in the UK, has been around for quite a while. But you can do it today in Crest. But not everybody does. Why doesn't everybody do it? Because that would lead to an immediate increase in settlement rates, if partial settlements were allowed.

For me there are two elements for us getting into a good place for the future of finance. One is automation, any investment, that is not going to be wasted and the sooner you do it, the easier it will find it to recover your cost.

Second, just to look at what you can do today. The example that often gets raised is allocations. So, people tend to send their allocations at the end of the day. Received wisdom is that people know what their allocations are at least earlier in the day if not in the morning when the trading starts.

So why are people hanging on to this information, why aren't they sending that earlier in the day? Because it's just one less thing getting in the way of timely settlement. So it's thinking about how you operate in this business. I hear it time and time again and I hope people are taking this message away, which is this is a horrible way to put it, but it's a once in a lifetime opportunity to rethink how you behave in this market place. And there's no way of sugarcoating this I'm afraid. There will be winners and there will be losers. The losers will be the people who don't take this seriously and don't use this it opportunity to prepare to the future.

So, a final statistics for this particular part from me at least. There was a survey done post T+1 in the US, which suggested that back offices on the buyside had experienced anything up to an 18% uplift in staffing costs. And that tracked back to a percentage folks who left it too late to do the automation that T+1 needs to be built on. So they threw people at it. So, a 20% uplift in staffing costs is simply not sustainable for this industry. And again in addition to the 900 billion that came out of my pension, yes that's a hell of a pension I've got, but also paying the 20% uplift in staffing costs for folks.

Amit Kohli *(37:54)*

So, look thank you all for those reflections. I think the 900 billion should be up in lights somewhere and used as a stick for the industry, if they need an excuyse to act on this topic. Given we're focused in this session on the future of securities finance. And we'll touch on the longer-term outlook in a second, is there something that firms should be focusing on.

So, in addition to October 2027 and automation, all of the other aspects in the short medium term that the firms should be thinking about in order to future proof their businesses, follow the sun models, 24 hour trading, et cetera. Andy Dyson maybe, your thoughts on that?

In addition to October 2027 and automation, all of the other aspects in the short medium term that the firms should be thinking about in order to future proof their businesses follow the Sun models, 24 hour training, etcetera. Andy Dyson maybe. Your thoughts on that?

Andy Dyson *(38:51)*
Yes. So I think again, we've got a number of things happening at the same time, which creates sort of almost a perfect storm and another big theme that we're seeing is a desire for extended trading windows through to 24 hour trading and I think we're seeing that driven by a number of factors.

First of all, from a traditional market perspective, I think Andy Hill is in the Middle East as we speak. As those markets become more mainstream from a traditional investor perspective, they have different settlement days. Different business days.
So therefore it's very important from a global perspective, if you're running a global business, you're going to need to be able to book a trade on every day of the week, together with moving collateral etcetera. And, as we've seen markets like Saudi Arabia open up, many of our members just weren't ready for that. To your point, Andrew, they then resorted to manual intervention with just more bodies in the short term. Clearly there needs to be a longer solution to that.

The other thing that we're seeing is this desire for extended trading hours is coming from a different place, which is coming from the rise of retail investors who want to trade their portfolios on their handheld devices at the weekend.

That's the nature of when they want to do their financial transactions. So, that's driving particularly exchanges and platforms to think about providing access to those markets on an almost 24 or seven basis. Again, that raises important questions around things like liquidity, how do you respond to that and what that means? But I think we shouldn't confuse T+1 agenda with a 24-hour trading agenda because whilst they're happening at the same time, they are being driven by a quite different fundamentals in my view. Unfortunately, we have to solve all of them roughly at the same time.

Amit Kohli *(40:42)*
Thank you Andy for that. When we talk about fixed income, Andy Hill and liquidity, is there anything that we need to be cognizant of near-short term, in terms of improvements that could be made. What should member firms be thinking about?

Andy Hill *(41:07)*

I mean, it's a good point. It's when you think of liquidity in the bond markets and bonds are inherently illiquid, right? It's a very different instrument to equity, doesn't behave in the same way. You're very much dependent on intermediaries.
So you need market makers for the bulk of liquidity and that means that they need to fund their positions. I think the fact that this is essentially a move to T+0, we're calling it a move to T+1, but it's really T+0 for the securities financing and repo space. It is going to put pressure on intraday liquidity because you're going to have less scope to fund in the in the overnight. It's going to be challenging.

So, it does mean working with the CSDs. It does mean working with Target 2 securities to find efficient ways of being able to settle a significant, we believe potentially a significant amount of government bond securities same day.

I think, reflecting on what Andy Dyson was saying, looking forward, I think with this move we're really pushing the current legacy systems to the max. I don't think we can push them any further. So, when we start talking about outright outright transaction settling to T+0 or when we start talking about real-time settlement, I think we need to think about a whole completely different infrastructure.

I don't think that the current setup is going to handle that. So, it does need a rethink and I think that's where we really start moving into the digital and tokenized space, but it'd be good to hear what my fellow panellists think.

Andrew Douglas *(42:49)*
I think you're exactly right there. And one of the issues that is fairly apparent in the whole digitalization debate at the moment is folks are looking at how they digitise, what we've got today. So, creating digital digital versions of existing infrastructures, as an example, maybe we need a different thought process. Maybe we need a different model and the question is how do you run the future and the existing in parallel to give both worlds an off ramp and an on ramp, so that they can play and work out what their roles are there. But I don't see there being a lot of effort at the moment going into that redesign and how

you create the model for that and see if it works and for me that should be what sandboxes for. That should be where you can operate an entire front-to-back new model in in a controlled environment to see how it works.

Andy Dyson *(44:00)*
I think I might just offer a thought on that, which is that some of the new fresh thinking that will be needed to think about security services more broadly, some of the current incumbents don't want to have that discussion because that could fundamentally change their business model. To your point, we could have some losers and winners in that debate. So, I think that I think that we'll see different interest groups coming at this from a different perspective because in some ways the way we think about security settlement more broadly with the use of new technologies could fundamentally change out of all recognition. That's not a technical issue. I believe that technology is almost here. It's more about a choice issue about how firms want to run their businesses.

Andrew Douglas *(44:49)*
So design and the tools are there. The question is how do you implement them. And just sort of going back to the original question, which was about what confirms be doing now. I would like to take the opportunity just to call out both the ICMA and ISLA for the fabulous work that their representatives, whether it's Tony and Adrian in in ISLA or it's Nina and Alex at ICMA, identifying and working with the participants, to create new market practises which are appropriate for the brave new world of T 1. But the value of the market practics is if the market practises it, to be sort of fairly fundamental, so there are things that people will need to do in order to turn practise into actual action. And certainly I would be encouraging people to look at that step, moving words into deeds and following those market practises that a lot of people have spent a lot of time coming up with, and invariably these market practises are designed to eliminate common problems so that we can all build value on a common platform.

Amit Kohli *(46:04)*
Yeah. And just thinking about that brave new world, as you mentioned Andrew, and being bold, right, as we are as an industry, what does the market hold for or look like in 2030 and beyond in your opinion?

Andy Dyson *(46:39)*
Which Andrew is that to?

Amit Kohli *(46:43)*
Andrew Douglas.

Andrew Douglas *(46:45)*
Without a shadow of a doubt, we will be in T+1 by then or T+0 as Andy Hill pointed out, for certain sectors of the market. I think we will be looking to a global T+0, whatever that means, or at least T+0 in the UK and the EU sooner than perhaps people are expecting it, and that will be driven by the digitalisation agenda which is starting to gather speed. We're seeing now the FCA has published its consultation on tokenisation, we've seen the digital RFP has come out. We hear the Bank talking a little bit more about flexibility in digital payment rails. So, certainly from a UK perspective, my sense is that we will be making a lot of progress in a very short space of time.

When I can reference the document, which I hope everyone has seen, the wholesale digital markets policy that the Treasury published around, mentioned in July of this year and that has a 10-year time frame for us to have achieved certain things. So, it's getting rid of paper, introducing proper digital identity, T+1, probably T+0 will be in there, full tokenisation, availability, digital payment rails, the whole thing needs to be thought about holistically.

So, I would suggest we moved to T+2 in 2014. So, by the time we move to T+1 that will be thirteen years, 2014 to 2027, yeah, 13 years. I suspect we will be looking at implementing a T+0 and then I would hope this T+anywhere, I would hope we'd be there within 5 years of T+1. So for me, we're talking about the early 2030s, which will mean that people need to start working on that now.

T+1 is the gateway drug to digitalisation because it forces you to automate. So, we need to be having those conversations. We're waiting at the moment for the appointment of the digital markets champion. Hopefully that will happen soon, and we, at least for the UK, will then work out what our North Star is and we can all start to move in a collaborative way. That means that everybody benefits. Everyone that is a participant in the UK markets will benefit from developments which are coherent as we move forward into the digital space.

Amit Kohli *(49:48)*
Quite a lot of excitement, I think for the markets as a whole there, Andrew. And I guess

given Andy Dyson you mentioned quite a lot on the change agenda from a securities lending perspective. What are your views on 2030 and beyond for the industry?

Andy Dyson *(50:09)*
So yeah, as we come to the end of this session, I think what I fundamentally believe is that if we look forward to 2030 and beyond, there will still be a demand for financing. There will still be a demand to cover securities that are about to fail, notwithstanding all the great work, it's quite likely there will be grit in the system somewhere that demands somebody to provide liquidity to somebody else. I think the interface between the new world and the old world will be fascinating. I think as Andrew's alluded to, I think mobilisation of collateral will be something that will be a constant feature of our markets.

I think the assets that we're financing might change, they might change their shape and nature and form. So, they might become digital assets, might become crypto assets. But at the heart of it will be that fundamental need to trade some form of liquidity around an existing transaction. So, I think we will follow those markets closely, follow our members. And I think that puts us in a place where we can continue to add that collaborative value to the way the markets develop. For me, I think it will be a fascinating journey over the next 5-6 years at least.

Amit Kohli *(51:24)*
Indeed, indeed. And aside from Back to the Future style, hoverboards for fixed income, Andy Hill, what can we expect for the fixed income financing markets?

Andy Hill *(51:43)*
I think more of the same, but also a little bit different. I think to Andrew's point. I think T+1 will be the standard, but again there needs to be some pragmatism around that. Not everything can settle T+1. I do think that there will be more advances in terms of the adoption of tokenised or native digital assets, I think that's inevitable. What we're seeing in terms of the development of CBDC will certainly in some jurisdictions and perhaps even more impactful what we're seeing with the increased rollout of stable coins. I think that's going to be a big catalyst because that really makes that on-chain DVP settlement possible. So, I think we're going to move very much as already being said into a hybrid world. I think the need for the realisation that moving securities around and moving cash around same day which is a inevitability of T+1 is also going to drive the adoption of tokenisation and digital collateral and liquidity management. So yeah, I think it's

going to look very similar in many ways, but a little bit, I hope a little bit different and better than it does now.

Amit Kohli *(53:01)*
Thank you. So, thank you all for your input on key topics. I'm sure our audience are going to take a lot of learnings away from this session. I would like to maybe just spend a few minutes. Well, if I could ask you, Andy Dyson for some closing remarks, given the perspective you've had on the financing industry and the fact you're well positioned to speak on where the industry goes from here. Maybe some closing remarks from you.

Andy Dyson *(53:48)*
So yeah, listen, this has been a fascinating discussion and I think with all these things, I've certainly learnt something listening to my fellow panellists. I think if we look at the history of financing, certainly during my time involved in the business. The first thing is that we often get presented with quite intractable challenges around how we might do business, how we might process transactions and what the post-trade environment looks like. The reality is we deal with those challenges. We might not deal with them in the most efficient way that we could, but somehow we generally get things done and I think what we're now seeing is another period where the market needs to come together to get things done. And Andrew Douglas outlined brilliantly the way the collaboration is beginning to deliver some of those outputs. So, I think for me more challenges to come. We have a history of dealing with those challenges. We have a history of innovation, and we have a history of supporting, general development of market liquidity wherever our markets appear. So, I think from my perspective to Andy Hill's point a moment ago, more of the same, it might look a bit different because it's new asset classes doing things in different ways, but those fundamentals won't change, so I think I would expect an exciting few years ahead.

Amit Kohli *(55:11)*
Thank you, Andy. And I guess on that note, this brings our session to a close. So, Andrew Douglas, Andy Hill, Andy Dyson, thank you very much for your time. For all our listeners, if there's any follow up questions, please contact us via the Pirum website. And we'll leave it there. Thank you all.

Andrew Douglas *(55:34)*
Thank you.

Andy Dyson *(55:35)*
Thank you.

Andy Hill *(55:35)*
Thank you.
