T+1 Webinar Episode 2 – Securities Lending

Duncan Carpenter ***(00:09)***

So, welcome everyone to our next episode in our T+1 Series. This time we're focused on securities lending. My name is Duncan Carpenter. I'm a product manager here at Pirum and I'm delighted to have with me some experts from across the industry, representing the different firms and different parts of the ecosystem.

So, with that, I'm going to hand over to them to introduce themselves. I'd start with yourself, Claire.

Claire Burns ***(00:35)***

Sure. So, I'm Claire Burns. I'm the global head of securities lending operations at Morgan Stanley. I have about 19 years at Morgan Stanley covering various functions across operations.

Duncan Carpenter ***(00:49)***

Fantastic. And I'll go to Andrew.

Andrew Geggus ***(00:52)***

Hi, I'm Andrew Geggus. I'm the global head of agency lending and tri party services at BNP Paribas. I've been here now for the last six years.

Duncan Carpenter ***(01:01)***

Right. And finally, Tim.

Tim McLeod ***(01:03)***

Good morning. Thanks Duncan. So, similar to Claire, I'm also global head of securities lending operations here at BlackRock. I'm also head of investment operations for EMEA and APAC and 24 years at BlackRock and BGI combined.

Duncan Carpenter ***(1:18)***

Fantastic. So, a lot of great experience there. And I think importantly, most of the key different aspects. We've got custodial lending, we've got agent lending, we've got prime brokerage representation. So, hopefully we've got a nice breadth for the market there.

Now as we were sort of preparing for this episode, our initial thought and initial question that came up was well, we're talking now about T+1 obviously coming up in the UK and the EU, but we've already done this in the US. T+1 went live in the US, the world kept turning. Things still seem to be happening.

So, I guess, is there a challenge? What's the big deal? We've done it before. Is the UK and the EU just a rinse and repeat of what we did a year or so ago in the US? And I think, Tim, I was going to throw over to you just for opening thoughts on whether that's a fair statement or not.

Tim McLeod ***(2:10)***

Yeah, thanks, Duncan. Yeah, good point. And I think it's an obvious kind of question that all firms are wrestling with, like what can I repurpose from the US, Mexico, Canada transition.

I think the headline is that there's going to be some components, sure, that have application, but it's really important to think about the relative complexity of the whole EU ecosystem relative to the US, right.

So, you think about the US market, huge market and frankly credit where it's due for the preceding 10 years that the market had a discipline to simplicity, to settlement efficiency. So, I think the transition from T+2 to T+1, whilst significant effort associated with it, it's been seamless and I think we've not seen huge consequence whether that's in lending markets, cash markets, whatever it is.

So, again, credit where it's due for how well that was managed, but it is a very different market.

You think about the EU, you've got 40-odd trading exchanges, 18 CCPs, something like 14 or 15 currencies, 30 odd CSDs. And as we all know, a very complex web in terms of the regulatory framework. So, navigating all of that across all the different markets that we're talking about here, lending is just one component part.

That's a huge effort to try and get that done and get it done correctly and in a way that really accomplishes the ambition because T+1, if we think about the EU angle for T+1, this is a critical component of, say, Savings and Investments Union agenda, right, which is to create a fair and transparent marketplace for all market participants.

So, we can't just stumble into it and think that we're going to be OK. If we do that, then it won't be OK, and we won't achieve the objectives of the SIU and there'll be a significant cost of getting it wrong.

So, not only do we have all those structural issues to contend with and regulatory issues to contend with, we have things like the CSDR penalty framework, that there is a significant cost to failing. We've got cross-border challenges that maybe didn't exist within the US market. We've got, if we bring it back to securities lending, we've got a lot of free of payment activity to contend with and moving collateral versus moving securities.

So, I think the message I'd say is, yeah, there are some. Yeah, we should look at the lessons learned from the US. I think that went really well as a transition. So, I think we're going to talk about some of these, good preparation, early testing, collaboration across the industry, understand the whole ecosystem picture, that sort of thing and obviously invest in automation.

But to use your expression before, it is not rinse and repeat because I think to do so would fall short relative to the challenges that we've got and not to always have this as a negative angle as a challenge, but also the opportunity that we've now got, whether that's in lending or in repo market, or cash markets or ETF markets, the opportunity to do something really innovative and I think that's the way we should come at it.

Andrew Geggus ***(5:22)***

I think also with the US, we did see some people utilise just increased headcount and increased bodies to handle the flows and, unfortunately, we are in a situation where resources and headcount aren't in abundance and that's not the solution to everything.

It's also not the solution that we all want as participants because throwing resource in terms of headcount at these problems doesn't solve a longer-term solution and it's not scalable to the way we would like.

So, whilst I think that the US did go quite smoothly, we may see some different challenges with the move in the EU and the UK. But, as Tim said, there are possibilities of improvement as well.

Claire Burns ***(6:08)***

And I think we have to use that to drive change with our third parties holding the US up as an example, right, the level of standardisation, the interoperability that we have in that market made this seamless as well as head count in some areas.

But we're putting that out there as the benchmark and really challenging the CSDs to look at how they can be more standardised and support us in a better way rather than us all being the industry participants and making the changes at our side.

Tim McLeod ***(6:39)***

I don't know whether you guys read it, but there's the Firebrand research paper which came out in June talking about shortened settlement cycle. Just picking up on your point there, Claire, on CSDs, there's a number in there that really stood out for me, which was, this is not all to do with securities lending obviously this number, but I'm just going to read it because I had it here to hand.

So, €70.43 million a month was paid on average in financial penalties in 2024 for settlement failures on the T2S platform, right? So, run that to a full year, call it €850 million and change.

So, that is not all going to be down to CSD infrastructure, a lot of that is obviously market participant behaviours as well. And lending is obviously a contributing component to that number, but not exclusively the owner of that number, but that's a lot of money to be going into things that have gone wrong.

And I think you're right. I think it's a combination of, I'm sure we'll talk about it today, the market participant behaviours, the automation, but it is also the CSDs and the way that they're facilitating these markets as they compress because the target should really be, how do we halve that number, maybe even be more ambitious than that.

Andrew Geggus ***(8:01)***

It's interesting. That's such a high number as well, because it also then reduces the resources that firms have available to actually improve things as well.

So, it's always, I'm not going to pick on the regulators here, but the carrot and stick approach to improving settlement efficiency, these punitive charges and the reduced settlement cycles can mean that resources are dedicated on that and unfortunately that means that firms then have to arbitrate between investing into the platforms and improving.

So, trying to get a balance between the two is key.

Duncan Carpenter ***(8:36)***

Yeah, absolutely. And I was just going to briefly chime in on that. It's a great stat, Tim, and it's a great thing to highlight. I think it says two things to me when you're saying, oh, there's one, yeah, there's a huge number. Combine that with something you touched on earlier. It's also an opportunity, right?

That means there's a huge amount of money that's being spent which is largely avoidable, and it's an opportunity maybe in two ways. Within the confines of securities lending, if we can be more efficient as an ecosystem, we can save our portion of that or large piece of that. And then maybe touching on something we'll get into a little bit more is securities lending is also a way of solving that issue for some of the other financial problems.

I mean, I remember when I started in securities lending many years ago, one of the primary things it was for was settlement efficiency. It almost had that sort of beginning. It was a back-office tool where two back offices were agreeing to something to help settle another trade, be it an outright purchase.

We can still provide that role and if we can provide that role and they're the kind of numbers that are being lost in those other transactions, there's an opportunity for again for securities lending to help reduce those costs and save more money across the industry, not just within our own four walls as it were.

Claire Burns ***(9:47)***

And I think that's an interesting point, because not only do we need to continue to do that role, but it actually becomes more critical in making sure this works for the full market.

Duncan Carpenter ***(9:57)***

Yeah, absolutely. And if anything, T+1 heightens that utility of securities lending right within that easing settlement flows.

Tim McLeod ***(10:07)***

We've always sort of, I guess as an industry prided ourselves somewhat that we can be T+0. I mean the US market, US equity, DVP can be a T-20-minute market which is fantastic. I mean it's slightly different obviously when you're moving towards free payment, non-cash and there's the exchange of collateral and securities to contemplate.

But we still do operate well as a T+0 market today. I think to your point Duncan on the opportunity set, I'd say also you look at what we have now as a global lendable amount.

I think ISLA's latest report, it's something like €40 trillion of assets that are available to be lent at any given point, right. That's going to ebb and flow from that number, but utilisation is still 8% roughly something like that. Much more skewed in terms of equities there. There's more equities available than fixed income obviously, but fixed income is much more highly utilised in terms of the available pools. And yet we've got a lot of those settlement issues are within fixed income.

So, I think there's an opportunity there to say how do we get the fixed income securities lending market to the standard of the equity markets and I appreciate these are two very different markets and different motivations for borrowing different life cycle events.

So, it's not a perfect apples for apples comparison, but I do think T+1 sort of mandates that an industry look at, well, why is there such a delta between equity and fixed income practices, settlement rates, that kind of thing, but also T+1 is an inevitability pretty much globally now, right? So done the US market, done Canada and Mexico and some other markets, India moved to T+1 first. We've got Europe and UK going. We know that APAC markets are starting to issue consultation papers.

So, the other thing here I'd say is, how can we future proof this? So, we know we've got a T+0 market today, but I guess my message would be for all market participants on the lending side, don't just solve if you can for Europe and the UK, think about what would we need for Taiwan to go to T+1.

Now, that's probably an extreme version because we know what a difficult market Taiwan is for securities lenders to operate in relative to the risk profile of, say, failed trade. But can we build once rather than build twice, that's something that has been talked about in terms of the cash markets. Can we build once to get to atomic settlement and I think the answer is no, because I think there's a huge difference from moving your cash equity market to T+1 to moving it to T+0 because of all the other component parts around it, whether that's the FX markets, repo markets, etcetera, etcetera and collateral markets.

But I think for lending, some of what we're doing here in Europe should have application to other markets that will inevitably move to T+1 as well and that will just allow us to continue to, back to your point, have conviction in the lending market as a liquidity provider to these other markets that are going to need our help to avoid that settlement risk coming back to that big trillion dollar number that could easily crystallise.

Duncan Carpenter ***(13:27)***

Absolutely, Tim. And I love that message. If your process works across market, right, it almost lets securities lending be that first ready and waiting to be that liquidity provider in whatever markets come next in terms of probably APAC going on that T+1 journey and so we can sort of sit there and support the wider markets, as they all make that, like I say, fairly inevitable move at this point.

So, just looking at some of the other topics we wanted to cover as well. And I think we've talked a lot about T+1 as an opportunity to challenge it. I think one of the stepping back a little bit maybe in terms of what are some of the challenges we're now looking to address in the EU and UK I should say at a firm level and where we start with that process?

I think one of the things we touched on yesterday in the preparation, Claire, from your point of view just starting your whole process earlier, right and short coverage moving the whole clock forward, so you've got more time to do the entire process.

Claire Burns ***(14:30)***

Yeah. So, we're really looking at how can we compress the upfront processes and part of obviously that starts with trade capture, right. And looking at the automated booking processes that we kick off. Normally these would start for Europe at the start of the day for the next day. But in this compressed accelerated timeline, can we start moving them earlier, and if so, when will the data be available for us to do that?

We're starting to think through that just now and then the logistics that goes with that because at the moment the European team cover the European market, but actually if we're booking that say the night before, we might need some of these processes to kick off a little bit earlier, whether it be exception processes and pre-match and reaching out where we've got challenges and then we'll need to think about, well, where are our lenders, are they actually going to be in a time zone that we're going to be able to connect with them at that point. So, I think there's a lot of logistical conversations to go through there.

But with that I think also that it presents a good challenge for us because I think historically and really across the industry, this area hasn't been particularly well invested in.

This really gives us the carrot or the stick whichever way you want to look at it, to really invest in these processes and make it more efficient than it has been. I think we've got a lot of areas where we're just not particularly efficient at all and obviously it looks at, as I said, starting at the trade capture process, but then immediately after the trade is booked, starting to drill into all the manual touches, all the lenders that we have to spend more time with.

Wherever there's really friction in that settlement process we're trying to dig into now to identify why that exists and look at do we need to change behaviours. Do we need to update our systems internally, do we need to speak to our third-party providers and ask them for enhancements.

So, we're really working through that. It's a big book of work right now that we've identified, that will help us remove that upfront friction or reduce that upfront friction.

Andrew Geggus ***(16:31)***

One of the things you said there is quite interesting as well around that regional coverage because in certain markets right now, a lot of the times, US Treasuries is a good example, Ttey're kind of traded across all regions and a lot of the time you need to make sure that you have coverage across the globe to help with settlement and collateralisation, etc.

And in other markets, some of the equity markets, particularly, you see more regional coverage and therefore time zone coverage as well. And that might need to change in behaviour to counter the issues faced with T+1.

Tim McLeod ***(17:07)***

Picking up on, Claire, on your point, sorry to jump in now on recalls. I think this is where for lenders we talked about the need for automation for T+1 and I think on the recall side, it's particularly critical, right?

So, I mean I guess what I say first and foremost is as lenders, our objective is not to recall, and I think all lenders should do what they can to maximise internal switching capabilities to try and just reduce the volume of recalls that go out. But ultimately, they are an inevitability at some point.

Not all recalls are born equal, right. Sometimes we're going to be recalling our borrowers because we've gone above a certain borrowing limit, maybe set by a client. Recalling that is critical, but maybe not as critical as something that's going to have market consequence.

Recalling a very liquid name is likely to be much easier to settle than an illiquid name, so being aware of your book, I think as a lender is really important, but also the automation angle. We know that a lot of asset owners will be trading towards market close. That's just the nature of the market, particularly in the equity side.

So, therefore, there's a big difference between people sending recalls out at 5:00 in the evening and 7:00 in the evening. The 5:00 in the evening is when it's fully STP, fully automated and then gives our borrowers that opportunity to just start to line things up earlier. 7:00, 8:00, 9:00, then, to your point, you're into where's the coverage for that? How do I start to line up my borrows for the next day?

Yeah, we know that vast, vast majority of recalls that we issue are covered by borrowing from elsewhere. But you need time to borrow that, and if you're borrowing that on a free payment basis, we're back to the other issue that we talked about, which is the collateral coverage. So, how does the collateral get posted in time to receive the stock that you can deliver back to me so that I can then settle my market trade that might have an earlier cut off than the free payment delivery.

So, all these things, I think, go back to the speed with which that recall can be issued to the counterparty to give you that fighting chance to get it back.

And I think that the automating the recall itself is not a guarantee of it settling on time, but it just gives that greater visibility into what's out there, a better audit trail. And then the next step from that obviously is, can lenders work with the borrowers on things like auto partialing on the stock and return side to help feed into the partial on the cash equity side and we know that that's not simple and there's a lot of consequences with that and sometimes you don't have alignment on cut offs or you might have transaction charges that make that actually that trade ends up underwater.

But I think I'm a believer in partialing. I think that lending is part of that overall ecosystem. We should have partialing on the lending return side. We should have partialing as standard on the market side that will certainly help reduce costs of fails longer term.

Andrew Geggus ***(20:18)***

And Tim, you mentioned obviously the recalls going out, so five or seven and I guess when you said about the illiquid names are going to be the problem, if the recalls going out after market close that doesn't give the borrowers the opportunity to go and buy if required. So, therefore it would help as well from the agency lending side and this talks to the opportunity to be able to cover a lot more same-day flow.

So, offer liquidity into the market on a same-day basis and that requires the collateralisation process to be quicker. Maybe extend how late you can do same day in the market to really help with that almost fail coverage mechanism that Duncan you mentioned, where securities lending offers this solution to multiple areas and across the financial network. And I think that that really will help.

We've seen situations before where there's potential liquidity issues in the market where a lot of agent lenders will pull back and increase their buffers. Really, that's not what we want to see as an industry.

We want to see liquidity in the market, and we want to see all participants being able to utilise that liquidity as quickly as possible because that will just benefit the market as a whole and keep everything moving around efficiently.

Tim McLeod ***(21:32)***

There's a lack of dynamism as you're saying basically on a lot of the same day borrowing, right? So, although I mean, I remember when we didn't do same day, everything was sort of charge date yesterday for European markets settlement date today. But we've been doing it now for a good what 15-odd years, European same day borrowing, but it is still as you said often encumbered by things like batch runs or tri party providers, or this concept of an end of day, right?

And if you look at say, JP Morgan bank in New York and, yeah, we haven't fully tested this out, but in theory they're open 23 hours a day. So, how can we accept collateral later in the day?

Obviously, we need the markets underneath that to be open to deliver securities to you but is there an opportunity for people to just think with greater agility around how can we as you said bring securities into the market to help alleviate some of that illiquidity later than we currently do, I think it's a good point.

Andrew Geggus ***(22:34)***

Yeah. And, also, that cut off between when you actually agree to the same day, if you can push that as late as possible, we can help everybody in the market. And I think that will really be beneficial.

Duncan Carpenter ***(22:47)***

Yeah. Also, go ahead, Claire.

Claire Burns ***(22:49)***

Duncan, I was just going to touch on something that Tim mentioned as well around the partialing process and I think it goes back to my point earlier about really pushing our third parties to support us better as we go through this process because I feel like this is one of the areas where we just see inconsistent processing and whether it be that cancellation messages just disappear. There's no transparency. Some firms aren't able to accept partials. We just see really inconsistent behaviour there that leads to settlement inefficiency.

And I think this is where the depos could really address their own processes and look for opportunities to make that more accurate, more transparent, and ensure the messages that are getting sent back to the firms are things that we can actually consume and do something with.

Tim McLeod ***(23:39)***

It's funny, Claire. Yesterday we were talking, and I said slightly blindly that I care a little less about voluntary returns than I do recall returns because as an agent lender, I want that to stay out on loan as long as possible. And so, when there is a settlement dispute on a voluntary return, does an agent lender jump on it as quickly as they would if it was a recall return?

Maybe not, but as you pointed out, well, there's a consequence for you of you and me not agreeing on the settlement status because you've got collateral tied up here that you might need to repurpose or you've been recalled on something that you've delivered to me as collateral.

So, actually it's a very key point that as agent lenders, I think we need to be more aware of the consequence of these things for borrowers who arguably have a more complex sort of ecosystem behind them that is opaque to us, obviously.

And, therefore to your point, settlement certainty is key. We shouldn't have disputes. There should be no reason why you think something is settled, but I don't. That's crazy in this day. But I think it goes back to another point around how will T+1 be effective and how will securities lending really benefit the market? Settlement certainty is critical, but you only get settlement certainty if we really double down on pre trade.

So are we still, I think SSIs is still the second biggest reason why securities lending trades fail. There's just no excuse for that. There are plenty of ways to make sure that you and I constantly have the same SSIs for every transaction.

Making sure that we've got the right fund, what we call enablement links, right. So, do you agree that you are borrowing this from this fund?

ALD we know is a slightly broken process and all these things are moving towards more of a real-time books of records confirmation process between ourselves, so do we agree at 10:30 on the Thursday morning that currently you're borrowing XYZ from me from this fund at this rate, if we agree that throughout the life cycle of that transaction, I'm pretty sure that the return will settle on time, provided there's liquidity, the return will settle on time and that if I have to issue a recall, you're not going to dispute the position.

So, it's really that investment upfront in the in the whole kind of, like I said, the pre trade side but also not perpetually relying upon contract compare, sorry Duncan, to identify problems that happened yesterday. Moving more towards that real time model. I think that as well will indirectly improve the ability of lending markets to serve other markets.

Duncan Carpenter ***(26:33)***

Yeah, absolutely, Tim and no, no offence taken at all, but look, absolutely, I think we're all on the same page here from our point of view, the contract compare, you call it, reconciliation processes. They're a part of the machine, but really, they're the backstop at the end of what is an efficient process where if you're using the right automation and tools up front, you're agreeing your trade, you're getting them captured accurately, you're agreeing your returns automatically, your marks automatically. Anything that affects that position, that reflection of a transaction is being agreed in an efficient automated way.

Then really all the contract compare at the end is telling you is that yes, all the things you were using before worked and you both agreed that this is the position at this point in time. This is the price, and everything then flows from that. This is the SSI that we need to use to settle it, and so on and so forth.

So, I'm firmly of the opinion that's a perfectly achievable realistic goal. And in fact, there are, to your point earlier, Tim as well, there are cases where that already happens right in the US. It's a simpler dynamic and SSIs are less of an issue, but we know we can book, settle and do loans in 20 minutes. We can even do that within the EU and the UK on non-cash books where if you've got the right links between you and your counterparty, the tri party agents involved, everything's in line. You can book a trade, a system can agree an exposure for you, get that over to the tri party and if you happen to be long collateral with that particular tri party agent, they can confirm back very quickly that you're sufficient and a release message can go out and bring that loan to market and get it settled, so it can happen that efficiently.

I think what I'm particularly interested in, I'm sure everyone is, what stops us from getting there on scale? What are the challenges or what do we need to do to make that the standard rather than to some degree the exception?

Andrew Geggus ***(28:27)***

Not to pick on you again, Duncan, but one of the things that will block that will be a lack of interoperability. So, to Tim's point, there are solutions out there to make sure that your SSIs are matching in a pre trade environment, but there's also multiple providers that provide some of these solutions.

And we're seeing an expansion in Fintech solutions in the market. And I think that one of the things that the market needs is greater interoperability. I think what we don't want to do as a market is create silos of liquidity and then cause additional strain on the market by your choice of provider for certain types of post trade or pre trade activities. So, I think that is one thing that the market really needs to figure out.

And I know there's a lot of work being done at Pirum and elsewhere on the interoperability. But I think it's really, really key that we have that as an industry.

Duncan Carpenter ***(29:23)***

Yeah, absolutely. I think I suppose it's incumbent on me to say something here as well a little bit. Andy, look from our point of view, I think I agree. I think my summary statement is where does the collective will between yourselves ultimately as participants, and then from our point of view clients and the relative industry providers, it can be done and we've got plenty of examples both in the recent past and going back a little bit.

So, from our perspective SFTR of X years ago, we ended up partnering with IHSM on the same basis. We're both originally looking at how do we solve for SFTR, how do we support our clients. Realised that probably a combined solution was more efficient from your perspective rather having different options. And then similarly, looking at T+1 more recently in the US, on a similar basis we ended up partnering with FIS on our recalls product because there was a very specific case there where actually it was just more efficient for everyone involved if we could instruct recalls directly to and from FIS rather than like you say having two disparate solutions covering different segments of the market.

So, I think where that will and where that prevailing logic exists, absolutely we're keen to look at that and work with whoever we need to work with to make that happen. But I sort of fully understand from your point of view, you don't want 19 point-to-point solutions you want an efficient number of solutions that gives you that wide coverage, but also those elements of resiliency and redundancy as well that you would need.

Tim McLeod ***(30:59)***

You asked a question of what's going to get in the way. I totally agree with waht Andrew said there an interoperability, but I want to also go back to Claire's point because I think that's really important around the infrastructure.

So, if you think about someone like us and our securities lending programme, our ability to do all the things we talked about today, probably less than half of that work needs to be done internally. The other, call it, 60% if you like, is our custodians who are our route to the market. It is then the CSDs, the ICSDs and it is our counterparties.

So, I think the success here hinges upon all of us to come together as an ecosystem, if you like. Andrew Douglas, who obviously I think all of you know Andrew, he made the comment that stuck with me about a year ago where he was at I think this was a Forvis Mazars event and he said he'd never seen so many different parts of the capital markets ecosystem in a room together, all aligned on an objective. And that stuck with me because I think it's true. You rarely see that sort of common interest.

Now, there's going to be some nuance there, obviously. But it would be a real wasted opportunity not to sort of surf that wave if you like, right? Where we all need to figure out how to do this. Lenders and borrowers and I appreciate with the lending markets, there's often a slight asymmetry of interest between lenders and borrowers. But here I think we've all got a common interest, which is, as we said, how do we bring liquidity safely to the market, how do we improve settlement efficiency? How do we avoid spiralling costs? How do we invest in automation, so we don't need armies of people? As Andrew said that for the US, maybe not armies of people, but yeah, we had to get more people in situ in different places.

So, I think all of that is aligned. There's challenges within that that are unique to lenders, unique to borrowers, but I think to answer your question, Duncan, like, what do we need to do? It's those partnerships with your key dependents that's going to make this successful, you can't just solve this in isolation within your own within your own shop and you can't just solve it in isolation for lending either.

So as a lender, you have to know what's going on for your underlying asset manager, what are they doing? How are they going to be transacting differently? What are the repo markets doing? Someone like us, what are our ETF market makers doing? That type of thing. So lending is part of the ecosystem. You can't solve it in isolation.

Duncan Carpenter ***(33:32)***

Yeah, I mean, you can't settle faster than the person you're trading with, right? Ultimately, you've both got to settle as quickly as you can. So, it's a common goal, right?

So, I suppose in that vein, actually, and moving on slightly, I guess from the challenges somewhat, or the things we need to work through, moving into, OK, so what do we need to do? What should we be doing and how do we get to that maybe that target state of actually we can trade 24/5 and we can go from booking to collateralisation to settlement within a matter of minutes rather than hours and days as it may be currently.

So with that, maybe just Claire, if you wanted to sort of take first stab at what are you looking at within your firm and what do you need to happen to get to a successful T+1 both from your perspective and an industry level?

Claire Burns ***(34:22)***

So, from our perspective right now we're working on getting our budget request ready for next year. So, I think we're going to have to build this in 2026 and ideally we hope to be using the new tools by the end of 2026 rather than having to wait till 2027 until the actual deadline and that's actually where our focus is right now, trying to get to the meat of what we need to be asking for from a technology perspective.

And we have a slight challenge in that we're working through legacy modernisation plans at the same time. So those two things have to really be aligned because we don't want to be building new tools on an old platform. So, there's a lot of logistics for us to work through, but to begin with we're getting the full list of everything that we need. We've been working on this since about May and trying to differentiate whether it is technology change, whether it is process change, whether we need to be speaking to our lenders or counterparts and trying to influence their behaviour.

So, we're right in the midst of that planning right now with a view to 2026 execution.

Duncan Carpenter ***(35:23)***

Right. And I guess Andrew, similar or...

Andrew Geggus ***(35:29)***

Yeah, absolutely similar. Working on budget and resourcing and then to Tim's point earlier, working very closely with the custodian part of BNP because without them we can't go out on a loan on this alone. So, we need to work collaboratively.

So, we've got dedicated project teams and taskforce working on this and ensuring we are prepared way ahead of time as Claire said. There's no point being ready in October 2027 because it's probably going to be too late.

So, you need to be ahead of time figuring out all of the wrinkles you have to begin with and then ensuring that all the stakeholders involved across the custody bank that I'm in are fully aligned.

Tim McLeod ***(36:11)***

Yeah, almost identical on this side, right? We're all in 2026 road map planning season. And I guess the bit that I feel as an industry we haven't quite got there yet is, back to the overall infrastructure piece around things like the collateral runs. Come talk to the industry, come and say what do you need, and maybe those conversations are taking place great. We'd love to see the output of that.

But I think whether it's through ISLA or through bilateral conversations, I think the lending market participants can be a little noisier, a little more vociferous about why it's important that the overall industry helps the lending to be successful here because it is, we are going to, it will be to the benefit of those broader markets as I mentioned earlier.

Duncan Carpenter ***(37:06)***

Yeah, absolutely. And I think I like that as a way to summarise. I think it's the conversation right now. It's important that there's a dialogue going on peer to peer, peer to provider, peer to infrastructure provider, right. Because if you're all, as you say, planning for what we're going to be doing next year, we need to know now. OK, but what are you going to be providing? What are you going to be able to support? What's your plan?

So, we can all factor that in and come up with a 2026 road map and delivery that both works for yourselves but also works within that wider ecosystem and hopefully to the general point here actually helps improve and lift that overall ecosystem so that we're serving the wider markets more effectively.

OK. So, I think with that what I was going to do is just to sort of round off is maybe go around the room and go, OK. So, if you had one thing or one key recommendation, one key thing to look at to the listening audience, what would it be right now and why? So I think again, we'll start with yourself, Claire, on that one.

Claire Burns ***(38:07)***

Yeah. Thank you. I guess similar to what we just talked about, I think if you're not already deep in planning, get there quickly.

I think at the beginning of these discussions, not today, but over the last year or so as we've been talking about this, there seemed to have been a little bit of relaxation about how complicated this was going to be, and it really is complicated and we need everyone to be engaged in this and making their plans for next year.

And if you have like peer to peer, if there is a borrower or a lender who causes you a problem, who makes your life more difficult, let us know so we can embed that in our plans for next year because I think we all as a community want to make this process as seamless as possible. But we need the intel and the feedback to be able to do that. So, start getting your book of work ready if you haven't already and start communicating.

Duncan Carpenter ***(39:04)***

Right. Thank you, Claire. I like that as well. So, what you're saying is I shouldn't open a webinar by saying let's just copy and paste what we did in the US and oversimplifying things.

That's noted for next time.

Yeah, fully agree.

Andrew, I'll hand over to you.

Andrew Geggus ***(39:20)***

Yeah, I think probably two points that almost echo on the fact that you need to start having the communication dialogues now both with counterparts in the market, but also from an agency lending side, your clients, understanding how they view T+1, whether their trading behaviours will change, what you're doing to help mitigate any potential settlement inefficiencies because of the reduced cycle, they're really key to be had.

And then the last but not least is make sure you have everything tidy inside your own shop. So, what I mean by that is really look at your processes, look at your structure, take a step back and think is this right for T+1 and to Tim's point earlier, is this right for T+0 in the future?

Try and think now about what you can do, where you can build it once and use it again.

Duncan Carpenter ***(40:12***

Great. Thank you, Andrew.

And finally, Tim.

Tim McLeod ***(40:16)***

Yeah, hard to top those because I agree with all those points. I think maybe just two things.

One, I’d encourage people to not fear being disruptive in a good way, right? Positive disruption, really think innovatively about what has worked for the last 30-odd years for the lending market may not be fit for purpose for the next five. Might be but might not be, so don't fear doing something completely different.

Do make sure that from an automation perspective that you're aware of where are your pain points as a lender or as a borrower, or as a custodian or as a CSD.

Do some honest navel gazing around where your true pain points are that are causing settlement friction. Get out there and learn about the tools that are there. Don't just rely on throwing bodies at it. Learn about the tools that are there and invest. Get that automation onto the docket for next year because it really will pay dividends.

I think my headline point is just be wary of doing nothing and gently sleepwalking into T+1 because I think if you go back to that number I talked about at the start at 70 million a month, whilst we might not see the immediacy of impact within securities lending, I think lending doing nothing and sleepwalking in will have broader ramifications across the market, including that number.

Duncan Carpenter ***(41:40)***

Fantastic, Tim, and fully agreed to all the sentiments echoed here, I suppose. Just picking up a couple of points I think from a Pirum perspective as well.

From our perspective really just come and talk to us right in terms of if you've got technology challenges or process challenges. We're always keen to hear about those really, talking about where we can help and where we fit, where we may be able to fit and ease those problems. And so that's really the key message from ourselves if it's something we're not already talking about or you're looking at your T+1 processes and you've got a question, always happy to have that dialogue and understand, is that something we've either already do or can help you with in the future.

So, I think with that said, I want to just thank everyone again for your time today. You've been hugely informative for me and hopefully for those on the line.

And with that, just to note that we have our next webinar coming up, which will be a bit more of a focus on fixed income. With our head of fixed income, Jon Ford, and that'll be I think published on October the 21st, but in the meantime thanks again everyone for your time today and I'll wish everyone a good remainder of the morning and afternoon.

Andrew Geggus ***(43:50)***

Thanks, Duncan. Cheers.

Claire Burns ***(43:50)***

Thanks again.

Tim McLeod ***(43:51)***

Thanks Duncan.

Duncan Carpenter ***(43:07)***

Thanks everyone.