

# T+1 Webinar Episode 1 – Setting the Foundation

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**Robert Frost (0:24)**

Welcome to the first in a series of five webinars focused on T+1 settlement. We will be covering different topics, so we have securities lending which will be run by Duncan Carpenter that you can see on your screen. We have fixed income and repo led by John Ford, collateral management led by Todd Crowther. And then finally bringing it all together with the future of securities finance will be our CEO, Ben Chalice. The objective of today's webinar is to cover the key T+1 topics that will be covered throughout this series and give you a bit of a flavour of what we'll cover with some industry experts joining the team throughout the series.

That will likely cover things like what does T+1 mean for the industry? What are the key challenges, what should the industry be focused on? And I guess more importantly, how should we all work together, our vendors and the industry collectively to achieve the best outcomes? So, what are we doing this series here at Pirum? Well, firstly, to bring together the thoughts and views from various experts across the industry covering securities lending, repo and collateral management. But I guess more importantly to leverage the unique position that we have where we see how many firms operate, what works, what doesn't work, and how we think we can help and bring everything together front to back to support our clients and the industry as a whole.

So with that, I'm going to bring in my esteemed panel to talk a bit about what they're going to cover on their individual sessions with those industry leaders. And I guess, keen to hear your thoughts, guys on how big of a challenge is it going to be to transition to T+1 settlement? And I guess what I'd like to bring out and again just briefly in this webinar is, does T+1 actually represent an opportunity for us to rethink the current operating model. So with that, I'll hand over to Duncan and hear your thoughts from a securities lending perspective.

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**Duncan Carpenter (2:31)**

Thanks, Robert. I suppose starting with that first question, the challenge of T+1 and there's been a few industry working groups, I think fair to say it's a fairly big challenge if that's the headline question, but maybe my own naivety at first when it first came to me as a topic, my initial reaction was, well, actually we've solved a lot of this and frankly well before T+1 was a thing.

We've got products and people using those products who are going from booking trades to collateralizing them to settling them to returning them hands off within a matter of minutes. So T+1 seems like a huge amount of time in that context. Now obviously you get into the detail and there are a huge amount of challenges across the industry behind the scenes in different areas of SBL you start to get into your recalls processes, you've got challenges there about getting the information in if you're a lender from your underlying clients and the timeliness of getting that through to the borrowers, and then how can they process that efficiently?

But I think that essential initial thought was well, yes, there are definitely challenges, but a lot of those challenges are about adopting the right processes or tools to resolve some of those time based challenges that are out there and that's my starting place, actually a lot of those are available and have been available frankly for a long time now in many areas.

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**Robert Frost (3:58)**

Great. Thanks Duncan. And over to you, John, for your thoughts from a fixed income repo perspective.

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**Jon Ford (4:04)**

So from the fixed income repo perspective, I think there's been a lot of analysis by the ERCC by ICMA, by ESMA. I mean first and foremost one of the biggest challenges is as cash markets go T+1, a lot of the repo market is going to go to T+0. A lot of the European repo market extends cross-border. A lot of that market has cross currency dimensions to a lot of the trades that are being done. So compressing that time frame is going to require a tonne of automation and a lot of removal of manual processes, so I think to Duncan's point solutions are out there.

But it's really a question of now the industry coming together and working within the time frame to get those processes automated. And so there's a lot of work to do, but there should be sufficient time to tackle it.

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**Robert Frost (5:12)**

Right. And then last but not least, Todd, I know changing the operating model with things like collateral optimization is close to your heart. So keen to hear your thoughts.

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**Todd Crowther (5:21)**

I agree with what we've talked about and it's the same goes for margin and collateral management. It's all about automation, connectivity, interoperability. And we've made moves through accelerated settlement cycles. Now some of the things that we're going to talk about in the collateral panel, we'll talk about other regulations or market infrastructure changes that make that particularly challenging and particularly important.

If you don't do this right now, even in a T+2 environment, you're talking about increased funding costs, holding inventory, pre paying collateral and potential fines of fails and that will only be exacerbated by a quicker settlement cycle. The things that are particularly interesting in the collateral space is the fact that with the advent of UMR and the move to central clearing for more products, you've got a lot more siloed places where you're having to post margin, which makes that difficult. You've got two way margining, which makes it a lot more participants involved in margining not all of them are as sophisticated as they would have been necessarily doing it for some period of time. So it is really about industry adoption of current tools to move along the automation path. So that's what we're going to talk about on the collateral side.

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**Robert Frost (6:53)**

Great. Going back to my point at the start about rethinking the operating model, should we be thinking only about T+1 or should we have a view of actually really thinking about the end game of T+0 same day settlement as you alluded to, John?

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**Jon Ford (7:09)**

Rob, I think that all of this, be it the SBL market, the collateral market, particularly the repo market, it all comes together that I think the solutions that are going to be implemented in the T+1 process and as I said, a large portion of the repo market's going to go T+0 anyway. I mean the key recommendations out of ESMA and the ECB and ICMA are really to create a process where hands are not touching trades.

So I think to answer the question is that you get it right for T+1, T+0 atomic settlement becomes much, much more of an attainable goal and reality in the market.

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**Duncan Carpenter (8:00)**

Maybe just to jump on the back of that, John, I think if you're thinking about processing tools, really again, almost forgetting T+1 for a moment, T+1 maybe a catalyst or a driver to look at something again. But really the aim of any good process should be that it should be scalable beyond people beyond manpower, it should be able to run as quickly as you need it and scale almost infinitely. Obviously, as much as possible without needing to throw a head count at it and T+1 just becomes another reason to look at it and go, actually, do my processes scale like that? Can they scale or do they need 50 more people every time they get a slightly bit quicker, in which case maybe I need to go back again and start from that drawing board and to your earlier point, Robert, it's about rethinking your model and going actually, is this just an opportunity to solve a problem that I've kind of known has always been there?

If you've been on a lot of the industry working groups across the T+1 discussions have been some great work there, but I think most people would agree a lot of the topics that have come up, they're not new topics because of T+1. They're existing topics have been around for a while that we've just lived with and T+1 is forcing people to pick up again, like SSIs weren't suddenly a challenge yesterday. They're a challenge many, many years ago. I was doing this on the buy side and they've continued to be a challenge and T+1 just becomes that extra weight you need. Maybe a catalyst to go, actually I need to go and fix this properly rather than another Band-Aid and have a few people here trying to make that work. It's just not feasible past a point, and I think you could say that about a lot of the things we're looking at actually, again, they're not new problems because of T+1. They're just problems that have been highlighted because of T+1 which are finally getting probably the attention they deserve.

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**Robert Frost (9:44)**

You beat me to it, Duncan, a topic that is very close to my heart SSIs and I feel passionately about how I think the industry should solve it across the whole chain as we mentioned. So looking to John and Todd from a collateral and a fixed income repo perspective as well. I guess given that comment that SSIs have been a challenge for many years now, October 2027 is when the EU and the UK moves to T+1 settlement. Is it realistic to think that the industry can solve that challenge in such a short time frame?

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**Duncan Carpenter (10:19)**

I mean, I've got an opinion. I'll have to go first, but I mean, short answer, I think is yes. I don't think it's an unsolvable problem for me. Don't get me wrong, there's some work to do there, but it's about effort and adoption there. It's not an infinitely complex challenge. It just needs budget and time and resource across all the players in the street, and I think hopefully what T+1 does is it gives the firms who we've been speaking to a lot of these people over a number of years who've always kind of wanted to solve this problem more efficiently. That opportunity and that budget and that resource they've needed within their own firms to actually go ahead and solve that, because a lot of the practitioners in that space know the challenge have lived with it for a number of years and just haven't been able to get it to the top of those priority queues to get that tech budget or whatever it is they need to get it solved. But I think now feels like the opportunity that should be the time where that's an easier conversation hopefully with the right people at your firm.

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**Jon Ford (11:21)**

And I would say add to that. It's interesting. We've had a lot of discussions with the T+1 committees at a lot of large banks and clearly the narrative within the challenge with Europe is

the multiple CSDs that are out there. It's been a problem forever in terms of crossing between different domestic settlement systems. SSIs for a lot of the houses that we speak to are the number one problem. Others maybe not so, but it's front and centre in terms of resolving the problem that's going to be resolved.

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**Robert Frost (12:04)**

And I guess Duncan, you touched upon it right. It needs investment. It needs resource, it needs time and clearly regulation helps with that. But ultimately there needs to be a return on investment. So with that in mind, Todd, given what I know you've been working on in the past, will you be covering that on your panel? How regulation can help drive the budgeting, but more importantly how you measure that return on investment?

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**Todd Crowther (12:29)**

Yeah, absolutely. So we touched on it earlier, but the impact to liquidity to prefunding things, the cost of failing all these things are going to basically justify further investment technology for firms in terms of automation, in terms of interoperability, especially as John's pointing out in the fractured environment in Europe, we have multiple locations. So, this is actually potentially a blessing in disguise for the industry because it's going to really force firms to address these things that potentially they could have gotten away with previously using manually intensive processes using legacy technology. So it's really going to drive change.

The other point is that we'll look at adoption of new technologies and there's a lot of industry working groups and firms working together on DLT, on digitised or atomic settlement and these things are going to be pushed forward in terms of new innovation because that financial impetus is going to be driving this.

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**Jon Ford (13:32)**

I think also let's keep part of this series is to keep an eye on the benefits. So ESMA has quantified some of those things across margin reduction, misalignment costs. And those are some of the things that we want to delve into in this series too, and it's relevant for all of the folks that are going through the process now. And T+1 committees in terms of just defining what progress means towards T+1 adoption and what are the metrics that people should be looking at and key, how do you measure those metrics and so those are some of the things too that we want to touch upon just to help folks. A lot of folks are well advanced in terms of the T+1 other folks, not so. So, what do you think about in terms of how do we tackle the problem from the get-go? What are the committees look like? Who's involved in those committees? So, we want to touch upon those things to realise those benefits that clearly are out there, massive reduction in margin requirements. That's real money for banks and other institutions.

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**Robert Frost (14:45)**

Great. And I've got one more question for you. So looking around my screen, I know there's many years within the industry, you've all been through a lot of regulatory change including the T+1 move last year in the US and Canada and Mexico. So I guess question, how does this differ to regulatory changes that you've seen before?

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**Jon Ford (15:11)**

Well, you would say that this has been adopted in the US and we'll talk about that. And so there was a process there, I think massive difference and one of the things that we found in our analysis with the folks that tackled the US problem was a lot of bodies were thrown at it and not necessarily automation and a lot of that is still progressing. So, it I'm not sure if I'm answering

your question Robert. But like we've seen this elsewhere, but nowhere near the scale across the cross-border element, the multiple CSD element, the cross-currency element. The netting, I think about the repo market that you get potentially between long and shorts across markets US to Europe, Europe to Asia. And a lot of the trading that is done globally that just has profound, profound need for automation. So I'm not sure if we've seen anything on the scale. What do the other guys think?

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**Duncan Carpenter (16:20)**

Come back to the US. It's always been throughout the US is a far simpler ball game in terms of where you've got to settle, you've got accounts, you've got DTC, it's a one-to-one mapping for the most part anyway, whereas in Europe that's again 27 markets and four in the UK, etc. It's just a different volume and scale of challenge over there. So there's some challenges that did apply in T+1 in the US and did require some addressing recalls and probably in the SBL space to one that got the most attention. And there was some movement there, but actually there are challenges that are either unique to the EU or bigger in scale and size and complexity because of the nature of the EU being so many markets. And I think they're the ones where the banks will have to look at again, and go, you know what I can't throw people to deal with exercises all over the place, that's just not a viable solution necessarily.

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**Todd Crowther (17:14)**

And from a collateral perspective, firms have been and still are trying to get their hands around more market participants doing it, more locations to collateralise. You're talking about cross currency; you're talking about a lot of offshore financing with particularly in the non cash space that it will create some ramifications in terms of people driving people to be more efficient.

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**Robert Frost (17:41)**

Well, that's great. I think that's given everyone a flavour of what's to come. I think from my perspective, given that we've got three industry experts from the different aspects of securities finance that for me is that the fact that it touches so many different parts of the life cycle. We've seen that from the T+1 task force papers that have come up with recommendations and that's a reason for doing this series. So we can really deep dive those different parts of the life cycle. So hopefully looking forward to your panels and we're going to really deep dive and get some interesting dialogue coming out from you guys and your guest speakers as well.

And then like I said, the final session after those three will be hosted by our CEO, Ben Chalice. And that will be again bringing everything together, but also looking beyond T+1 with topics such as I mentioned, T+0 looking at digital assets and 24-hour trading and settlement, artificial intelligence and big data and DLT technology, looking both from a life cycle management perspective and collateral.

So, with that I'll say thank you to John Duncan and Todd. We look forward to your next sessions. I think the first one is coming out soon going live on the 7th of October, so look forward to that. And with that we'll wrap up and say thank you gentlemen and speak to you soon.

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**Todd Crowther (19:03)**

Thank you.

**Duncan Carpenter (19:03)**

Excellent.

**Jon Ford (19:03)**

Thank you.

