

## Key Challenges faced by Asset Managers under US T+1

As anyone in the asset management industry will know, there is a **28<sup>th</sup> May 2024**, implementation date for the move to T+1 settlement for transactions in US cash equities, corporate debt, and unit investment trusts. The transition to a T+1 settlement cycle in the US will have a significant impact on asset management firms. Let's delve into the key areas which will be impacted:-

1. **Operational adjustments:** will be at the forefront of asset managers' endeavours. To align their processes with the shortened settlement cycle, they will need to reconfigure their systems and workflows. This realignment aims to facilitate faster trade confirmation, settlement, and reconciliation processes, ensuring smoother operations.
2. **Enhanced operational efficiency:** becomes a pressing demand in light of the T+1 settlement cycle. Asset managers must streamline their processes and automate manual tasks to cope with the tightened settlement deadlines.
3. **Technology upgrades:** to support the accelerated settlement cycle, asset managers might need to implement or enhance their technology systems. Trade capture systems, post-trade processing platforms, and reconciliation tools could be revamped to navigate the challenges posed by the expedited settlement.
4. **Risk management:** takes on a new dimension in the face of a shorter settlement cycle. Asset managers must scrutinise their risk management frameworks to accommodate the potential impact of swifter settlement. Counterparty risk, liquidity risk, and operational risk call for thorough review and adjustment.
5. **Cash management and liquidity:** assumes heightened importance. Asset managers must ensure they possess sufficient funds to settle trades promptly within the T+1 cycle. The management of cash flows and the optimisation of liquidity become critical endeavours, serving as safeguards against potential liquidity shortfalls that may arise. The liquidity challenge is one that could potentially be the biggest US T+1 headache for asset managers.
6. **Regulatory compliance:** undergoes a transformation as the T+1 settlement cycle takes hold. Asset managers may find themselves compelled to adapt their reporting and compliance processes to meet the accelerated settlement requirements. Timely and accurate reporting of trades, positions, and settlement activities to satisfy the expectations of regulatory bodies and market participants are likely to require enhancement.
7. **Industry coordination:** emerges as a crucial factor in this transition. Various market participants, including asset managers, broker-dealers, custodians, and clearing houses, must collaborate harmoniously. Effective coordination ensures a smooth transition and addresses any interoperability challenges that may arise as the T+1 settlement cycle is implemented.
8. **Market impact:** the impact on market dynamics cannot be ignored. A shorter settlement cycle possesses the potential to disrupt trading volumes, market liquidity, and volatility. Asset managers must assess and adapt their trading strategies and investment decisions to navigate these changes effectively.

The transition to a T+1 settlement cycle in the US will not be an easy one for asset management firms. Many have already created work programmes and project teams specifically to deal with the transition. What is key is that the impact is assessed from all angles (the Weltanschauung principle if you like) to minimise any risk to the firm or their operations when the shortened settlement deadlines go live.

Please get in touch with us should you wish to discuss how ISC Ltd can help you.

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