

T+1 SETTLEMENT



IS YOUR FX TRADING IMPACTED WITH THE
EQUITY SETTLEMENT SHIFT TO T+1?



T+1 Settlement: Is your FX trading impacted with the equity settlement shift to T+1?

Background

In February 2023, the Securities and Exchange Commission adopted rule amendments to shorten the standard settlement cycle to T+1 for transactions in U.S. securities including equities, corporate bonds, unit investment trusts, and exchange-traded funds.

The Canadian securities markets have followed suit and adopted a T+1 settlement cycle effective May 27, 2024. U.S. implementation will be a day later, May 28, 2024, due to the Memorial Day holiday.

How does this impact Foreign Exchange (FX)?

The shift to T+1 will represent a shortening of execution and delivery time for market participants. It will present additional challenges, especially for those that invest in the U.S. and Canadian markets with a non-USD/non-CAD operating currency.

There will be additional hurdles for investors acquiring U.S. and Canadian equities with a local currency based out of Asia and EMEA – specifically around bank holidays in their local base currencies.

Custodian and CLS cut-off times

From the time U.S. and Canadian equity markets close (10pm CET / 4pm ET), there is just one hour to trade FX, and correspondingly one hour to submit those FX trade details for CLS (Continuous Linked Settlement) processing (midnight CET / 6pm ET) – the most efficient method for settlement.

Although there are talks for CLS to extend their cut-off time by 90 minutes, this extension will not help if the custodian banks' cut-off time is earlier than that of CLS.

Compounding the issue, when there are local holidays (non-U.S./Canada), the T+1 trades will shift to T+0 settlement, and purchasing of securities will require funding **prior** to the equity market close.

Liquidity – “witching hour”

With this imminent change, market participants are anticipating a shift in liquidity where there will be an uptick after 11pm CET / 5pm ET (the current “witching hour”).

After speaking to some major banks' FX desks, we know there are talks for staffing to be extended on sales and trading desks to accommodate this witching hour. This will give market participants the ability to trade for a little longer, giving them a chance at settling in CLS and meeting their custodian cut-off time.

What you can do

Communication

- Make sure all stakeholders (Clients, Portfolio Managers, Operations) are aware of T+1 changes, and staffing is extended accordingly. Your trades need to be submitted prior to your custodian's CLS cut-off time. Be prepared to settle outside of CLS if the cut-off time cannot be met.
- Ensure brokers are promptly matching your trades. This is especially important around holidays when trades need to be matched as soon as the security purchases are completed (and not wait till post market closure) to give adequate time to meet the FX settlement cut-off.

Negotiation

- Speak to your custodian banks to extend cut-off times. Despite CLS's efforts to potentially extend their cut-off time from midnight CET/6 pm ET by an additional ~90 minutes, if the custodian banks' cut-off time is prior to that, the extended time is inconsequential.
- Speak to your equity broker who may be able to give you ad hoc extensions in your equity trades from T+1 to T+2 around local holidays.

Technology upgrade

- Develop a robust system that works around the clock. This is particularly necessary if you are an asset manager that does not have a presence in the U.S. or Canada and does not have coverage for late U.S./Canada/early Asia hours.
- Ensure a straight-through processing set-up so that all trades are matched and sent out for FX execution and settlement without human intervention.

Estimate pre-funding

- Pre-funding is not a popular solution; however, some clients are placing FX instructions prior to their equity trades being complete using an estimated amount to reduce any potential overdraft fees— should there be any.

Investment strategy shift

- Some clients are looking to change their investment currency to USD. This approach is not for all but is a consideration by a few investment managers.

Where we can help: Russell Investments' approach

Agency FX trading

Russell Investments provides a currency execution service called "Agency FX trading" that provides execution services to our clients.

Our currency trading desk, with its' primary trading desk in Seattle, Washington, benefits from West Coast hours coverage, allowing our staff to be an extension to your team and oversee trades that come in after U.S. or Canadian equity market closures. The traders can prioritize trades that require immediate attention during later hours in the day.

Technology

We have upgraded our systems to better service clients shifting from T+2 to T+1. This includes:

- Auto-cancel/rebill to settle trades gross vs CLS post cut-off
- System flag to traders and the operations team for same day settlement trades
- Monitoring CLS matching live¹

Custodial cut-off matrix

We have put together a simplified matrix by custodian, region, and currency pair which helps Russell Investments' Agency FX traders prioritize trading currency pairs that require special attention and avoid missing each custodian's cut-off times. See below for a sample of AUD cut-off times, which we have also collated for other currencies (all are subject to change).

Sample Matrix – AUD cut-off times (in Pacific Time)

MARKET	CURRENCY CODE	CUSTODY NAME	CUSTODY REGION DEADLINE MT304 (NORTH AMERICA)	CUSTODY REGION DEADLINE MT304 (EUROPE)	CUSTODY REGION DEADLINE MT304 (APAC)
Australian Dollar	AUD	JPM	19:30 (VD -1)	18:00 (VD-1)	18:00 (VD-1)
Australian Dollar	AUD	State Street	15:00 (VD-1)	11:00 (VD-1)	22:00 (VD-1)
Australian Dollar	AUD	State Street - Australia	23:00 (VD-1)	-	-
Australian Dollar	AUD	State Street LUX/MUNICH (CET TZ)	08:00 (VD-1)	-	-
Australian Dollar	AUD	CITI (U.S. custody)	08:00 (VD-1)	-	-
Australian Dollar	AUD	BNY Mellon	09:00 (T+1)	-	-
Australian Dollar	AUD	Northern Trust	14:00 (VD-1)	08:00 (VD-1)	-
Australian Dollar	AUD	CITI HK	18:00 (VD-1)	-	-

Source: Russell Investments FX operations.

¹ Anticipated implementation date.

QUESTIONS?



Contact Russell Investments' Agency FX Trading desk at rus-fx-traders@russellinvestments.com or visit russellinvestments.com/trading

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