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# **Practical Implications of T+1 for Buy-Side e-FX Traders**

Foreign Exchange Contact Group ECB Frankfurt am  
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# What elements of their existing e-FX trading processes should Buy-Side Traders review, to ensure readiness for T+1?

1. Operational Risks - Are counterparties, vendors, custodians and settlement and clearing service providers adequately prepared to support T+1 e-FX trading?
2. e-FX-Trading Setup – Are existing “onboarding” processes fast enough to enable clients to trade T+1 related FX on new accounts without taking on additional T+1 settlement risk?
3. Pre-Trade Netting of FX Orders - Are changes needed to existing pre-trade netting processes?
4. Bulk Transactions - Are changes needed to mitigate settlement risk?
  - a) Transact a series of “sweep trades” through the day to clear most FX exposures more quickly.
  - b) Process one bulk FX trade on T+1, then a “true up” trade on T+0.
  - c) Pre-Fund FX for T+1 transactions.
5. Program Trading - Do program trades need to be completed earlier in the day to ensure T+1 settlement?

# What elements of their existing e-FX trading processes should Buy-Side Traders review, to ensure readiness for T+1?

1. WM / BFIX Benchmark Trades - Are any changes needed in terms of timing and processing of fixing orders?
2. FX Rollovers - Does the rollover of FX positions have to be carried out earlier (i.e. so that any P&L can be reinvested in the underlying securities on the same day)?
3. Post Trade Allocations (PTA) - Are changes needed to the PTA process (i.e. to split up T+1 vs T+2 transactions or to PTA trades based on counterparty / custodian capabilities)?
4. Cancellation and Correction - Are post trade correction and cancellation processes through existing e-FX trading venues and internal Order Management Systems robust enough to mitigate potential T+1 settlement issues?
5. Documentation – Does documentation require updating (internal / external) to describe changes to e-FX trading processes that must be adopted in readiness for T+1?

# T+1 SETTLEMENT

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# FX EXECUTION & SETTLEMENT TIMELINE

## Equity Trade Date

## Equity Settlement Date

NY CLOSE

Start of CLS Settlement

GBP and EUR  
Settlement cut-off

Clients should execute  
ON transactions before  
15:40 CET (depending on  
custodian cut-off)

Big part of the volumes is executed  
just before US cut-off

Trade Date T

T+1 - 00:00 CET

13:00 CET

16:40 CET

T - 22:00CET  
/16:00ET

T+1 - 7:00 CET

US equity trade execution

Reconciliation  
Confirmation  
Matching

"witching hour"  
very scarce FX  
liquidity

CLS Cut-Off

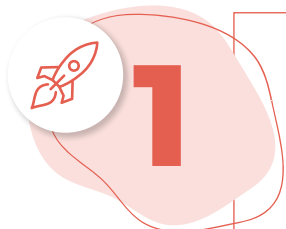
Initial pay-in schedule issued  
In/out swap process

FX Liquidity Peak

Asia, Europe and US are  
active at the same time

# FX HEDGING ALTERNATIVES

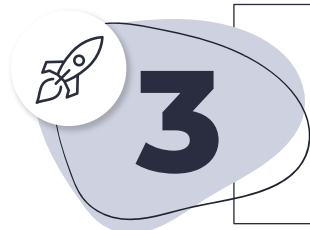
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Execute T+1 FX deals early enough to settle in CLS  
Depending on the execution time, investors may see an increase in costs  
Investors may consider the possibility to have an operational set-up in the U.S.



Execute T+1 (after CLS Cut off would ) or T+0 FX deals  
Increase of Settlement risk  
Potential impact on the Delivery limit usage on banks and clients' side



Prefund the security transactions: Investors keep executing FX during the best liquidity hours then adjust any discrepancy  
Investors could externalise their FX need to their custodian to reduce their settlement risk

# TALKING POINTS

## FX Liquidity

- Could we see FX liquidity improvement during NY afternoon?
- Could the FX spot convention switch to T+1 ? (on MDPs, Order books...)



## Streaming

- Would AM continue to use WMR 4PM fixing orders ?
- WMR 1PM?



## Documentation

- Some institutions consider T+1 and T+0 as derivatives that needs ISDA and CVar/RDL. Investors could have smaller liquidity pool ?



## Pre-Funding Securities

- Will prefunding add operational complexity ?  
Additional costs ?



## Banks Funding

- Trades executed close to CLS cut off may be challenging to hedge, could they trigger intraday limits ? USD funding ?



## EU Securities

- Should Europe profit from the lessons learnt on the US securities moves before extending the change to EU securities ?



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